



MINISTRY OF TRANSPORT

Railway Policy

*Presented to Parliament by the Minister of Transport
by Command of Her Majesty
November, 1967*

LONDON
HER MAJESTY'S STATIONERY OFFICE
5s. 9d. net

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RAILWAY POLICY

A New Policy for the Railways

1. The evolution of a new policy for the railways has been at the centre of the Government's whole transport planning. The principles which should inspire that policy were outlined in the White Paper on Transport Policy (Cmnd. 3057). The Government believes that, if our transport system is to meet the social as well as the economic needs of the country, we shall need a substantial railway system for some time to come. It also believes that the men in the industry cannot be encouraged to give of their best, nor can the public be given the service it has the right to expect, unless a sense of stability and of self confidence is restored to the industry.

2. On the passenger side it is clear that there are many railway services which have little or no prospect of paying their way, in a commercial sense, yet whose value to the community outweighs their accounting cost. These include many commuter services in conurbations, whose closure would add intolerably to road congestion costs, important cross-country services, and some services in remote areas where reasonable alternatives cannot be provided or only at excessive cost. The Government's first problem, therefore, has been to determine the size and shape of the basic route system to meet both commercial and social needs. This was essential so that management could concentrate on the improvement rather than the contraction of the system, and provide a first class service to the public, as well as an assured and worthwhile future for railwaymen.

3. After taking account of the views of Economic Planning Councils, the Government and the British Railways Board decided on the basic route network, the details of which were published in March 1967. It will consist of some 11,000 route miles, compared with the present system of about 13,200 miles. The establishment of this network, while embodying the necessary pruning of lines which no longer meet modern traffic needs, brings to an end the phase of drastic reductions necessitated by the 1962 Transport Act. The Government intends that this basic network shall be adapted and developed to meet present and future needs, and the necessary finance will be provided for new worthwhile investment, including the continued modernisation of traction, rolling stock, track and signalling, that can be justified on a proper economic basis.

The Joint Steering Group

4. The second main task of the Government has been to give the Railways Board a financial target they could realistically be expected to attain. Under their present terms of reference the Board are required to "break even" as soon as possible, but they can never be expected to do this as long as their accounts are burdened with the losses on socially necessary lines which they have been refused permission to close. If self-reliance is to be restored to the industry, it is essential that the community should explicitly take financial responsibility for these passenger services.

The first step, therefore, has been to identify and cost them. Joint machinery to study this was set up by the Minister of Transport and the Chairman of the Railways Board under the control of a Steering Group whose Chairman is the Joint Parliamentary Secretary to the Ministry of Transport, Mr. John Morris, M.P.

5. The Joint Steering Group produced an interim report at the beginning of 1967 on the scope and form of grants for unremunerative, but socially necessary, railway passenger services. They then proceeded to examine what further steps would be necessary to put the Board's finances on a sound footing. They reported on this major question in July. The Group's Report, combining these two documents, is published in full as an Annex to this Paper. Their recommendations are summarised in Section 5 of the Report and the Government has decided, after consultation with the Railways Board, to accept them.

Scope of the White Paper

6. Separate White Papers will deal with the Government's freight policy and the Government's policy on public passenger transport. The first of these further papers will include a description of the effect of the new freight policy on the railways and the means by which it is intended to put the carriage of freight on to a new, more efficient and more economical basis, including the setting up of a National Freight Corporation. The White Paper on passenger transport will describe the role of Passenger Transport Authorities and the kind of arrangements which are to be made between these Authorities and the Board in respect of local rail passenger services.

7. This White Paper does not attempt to deal with these problems, fundamental though they are to the future success of the railways; it concentrates on the central financial and management issues, which are the main subjects of the Group's Report. On the financial side it has been necessary to decide the extent to which, and the way in which, continuing assistance should be given to the Railways Board for the discharge of their necessary social obligations. From this it has been possible to make a forecast of the Board's future overall financial position after taking account of social factors, and this has led to the conclusion that an extensive financial reconstruction will be essential. These major changes carry implications for the Board's future organisation and management structure and here also the Government has made far-reaching decisions on the basis of the Group's recommendations.

The Railways' Social Obligations

8. It has long been clear that the railways have no hope of supporting, from profits on their other passenger services and on freight work, the many non-paying passenger services which they are expected to retain. The time has come to face this fact squarely: the services which require long-term assistance will be identified and separately costed so that a conscious decision can be made whether the social benefit to be obtained from the maintenance of a particular service is sufficient to justify the cost of continuing it. The decision in each case will have to be made by the Minister (not by the Railways Board) and in reaching that decision the Minister will weigh the costs of retaining the service—in terms of the amount of grant which will

have to be paid—against the social and economic benefits which it will bring. Before deciding whether a service should be grant-aided the Minister will require to be satisfied about the level of service to be provided, taking account of other forms of transport which may be available, and will need to be assured that every opportunity has been taken to produce a good service at the lowest possible cost. This will mean a careful study by the Department of the existing service and of ways of getting better value for money as an alternative to the possibility of closure: the Ministry's Directorate-General of Economic Planning is already making a start on this work. In any case where the Minister decides against the payment of a grant, the Board will be free to submit an application for the withdrawal of the service. This will be dealt with under the statutory procedures laid down in the Transport Act, 1962, including a report by the Transport Users Consultative Committee where an objection is lodged; the appropriate Economic Planning Council will of course continue to be consulted.

9. The detailed procedures recommended for the calculation, payment and control of grants for these unremunerative passenger services are covered in Section 3 of the Steering Group's Report. The best estimate which the Group have been able to make of the likely total amount of these grants is £40m. per annum in 1969 and £35m. in 1974, with the addition in both cases of interest which on present asset values would amount to about £15m. These figures may however need revision in the light of further study including a detailed examination which is now proceeding of a number of selected services for which grant may be needed.

10. It has been suggested that another aspect of the social obligations which the railways are required to meet is the provision of what has been described as "standby capacity". The Steering Group examined this concept in detail and concluded that it is highly unlikely that "standby capacity", additional to that required for the railways' commercial and social services, could be proved to exist as a permanent element of any foreseeable railway network. The Government accepts this conclusion. The Group recognised, however, that surplus capacity does exist in the railway system in the shape of excess track mileage (e.g. four tracks where two would suffice to carry the traffic) and that until this surplus capacity can be eliminated (which is bound to take time) the cost of its temporary retention adds considerably to the operating loss. In accordance with their recommendation, therefore, it has been decided to pay a grant to the Board to assist in the elimination of surplus track and signalling capacity and the rationalisation of the system. The grant will be fixed in advance and will be calculated to cover the estimated expenditure by the Board on such surplus capacity as will exist in 1969 or is expected to develop over the following four years; it will, however, decrease year by year and taper off completely by 1974, thus giving the Board a powerful incentive to reduce their surplus capacity correspondingly, (though they will of course take account of any increase in traffic which either they expect to win themselves, or which is likely to be diverted to rail by the Government's new policy for freight transport). To the extent that they do not eliminate the surplus at the rate at which the grant decreases, they will have to make savings or additional profits elsewhere to cover the cost of the continuing surplus. On present estimates, the grant is likely to be of the order of £15m. in 1969 and will reduce progressively over the following four years.

will depreciation provisions be smaller as a result of the recapitalisation, but if in any year the Board fail to earn their full depreciation there will be no grant available to meet the deficiency. Consequently the funds available for capital investment will have to be found either from depreciation provisions actually earned, or from sales of scrap, surplus land and the like, or from loans. This will mean that an investment programme of the current size (some £100m. per annum or more) will involve a sizeable interest burden which in turn will have to be met from increased revenue. The Government expects that this new financial situation will lead to a major reappraisal of the size of the Board's investment programme and the type of projects which should be included in it.

18. In these circumstances it will be even more important that the methods and criteria used for investment appraisal should be realistic and up to date. The consultants employed by the Steering Group are shortly to produce a report on this subject and the Group will be making further recommendations to the Government in due course. The broad criteria for investment will of course follow those described in the White Paper "Nationalised Industries. A Review of Economic and Financial Objectives" (Cmnd. 3437).

Changes in Management Structure and Organisation

19. It will be clear from what is said above how immense is the task that faces the railway management if the Government's aims for the industry are to be realised. This emphasises the importance which the Joint Steering Group have attached to their recommendations on management structure and organisation. Their Report makes very clear their view that there must be changes in this field to match their financial recommendations. The first point which emerges from the Group's recommendations is the need for a change in the present arrangements under which individual Board members are executively responsible for particular functions. The Group emphasise that the Board as a whole should be free to concentrate as far as possible on policy questions and on the long-term planning and financial control of the industry; to this end they recommend that it should consist largely of members who would not be tied down by day-to-day responsibilities for specific functions, except that one member of the Board should have specific responsibility for the longer-term development of labour relations. They also think that the Board should be smaller than at present. They lay stress on the appointment of a single Board member (probably a Deputy or Vice-Chairman) to control and co-ordinate all aspects of the day-to-day running of the railways; as a "Chief General Manager" he would co-ordinate commercial, operating and technical functions in respect of both passenger and freight traffic.

20. The Group stress the need for effective long-range planning and financial policies which look beyond the next year's results. They recommend that there should be senior members of the Board (possibly Vice-Chairmen) responsible for each of these two aspects of the Board's responsibilities. The Government is in full agreement with the importance of these recommendations if the Board are to be in a position to ensure that the benefits of recapitalisation are achieved and that its prospective financial targets are met.

21. This re-thinking of the management structure will be carried through to the lower levels of the undertaking as a result of the Steering Group's recommendation that the Board should be required to submit a general scheme of organisation for the Minister's approval. Although the Group visualise a greater degree of centralised control in future, they have not made any more specific recommendations. They do, however, propose that the statutory Regional Railway Boards should be abolished, and this will be achieved by the repeal of Section 2 of the Transport Act, 1962. The Regional Boards as such are not essential to the "dispersed management" for which the Group see a continuing need (paragraph 4.7 of their Report). But this does not mean that the railway regions as management units will cease to exist. Indeed, it is clear that they will continue for some considerable time.

Government Action

22. The Government's acceptance of the financial arrangements recommended by the Group means that there will be a major recapitalisation on the lines proposed and that Government grants will be available for unremunerative but socially necessary services and for track rationalisation. The power to pay any further deficit grants after the new provisions come into effect will also be ended. These changes will enable a real drive to be made to eliminate the rest of the deficit. The Board's new task will be to operate economically and effectively on the new basis, and to move as soon as possible to a position of financial equilibrium. In this they should be greatly helped by the removal of that part of the deficit which is due to factors outside their control. The Government thinks it important, moreover, to place on record that in its view the new provisions deal adequately with all the Board's social obligations, and that for the future these obligations (apart, of course, from any specific Government requirements) cannot be regarded as any reason for the Board's failing to meet their new financial target.

23. So far as the Group's recommendations involve legislation, the necessary provisions will be included in the forthcoming Transport Bill. In particular, the Bill will provide for the financial recapitalisation, for powers to make grants for unremunerative passenger services and track rationalisation, and for the necessary changes in the statutory provisions relating to the size and composition of the Board and the possible modifications in the future organisation of the industry.

24. However, many of the recommendations do not involve legislation. The Government will be arranging with the Railways Board how these can most speedily and effectively be implemented, and how the outstanding work arising from the Joint Steering Group's deliberations can most usefully be carried to completion.

Railway Policy Review

Joint Steering Group

Chairman
John Morris, M.P.
Joint Parliamentary Secretary
Ministry of Transport

**Report to the Minister of Transport
and the
Chairman, British Railways Board**

September 1967

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Section 1

INTRODUCTION

1.1 The White Paper on Transport Policy of July, 1966, (Cmnd. 3057) records the Government's conclusion that for the foreseeable future there would be a need, as part of the country's transport system, for a substantial railway network. The social and other considerations which led to the decision to stabilise the rail network also made it necessary to devise a new financial framework for the railways. Accordingly the Minister of Transport and the Chairman of the Railways Board set up a Joint Steering Group to review certain aspects of the railway industry.

1.2 The Members of the Joint Steering Group are listed in Appendix H.

1.3 The full terms of reference for this Joint Review are reproduced as Appendix K.

1.4 To assist with our work we appointed Consultants, to whom we gave the specific remits set out in Appendix J.

1.5 Paragraph (f) of our terms of reference made mention of the continuing obligations deriving from the past which rest on the Board, including those in respect of road bridges and level crossings, of superannuation and pensions for past and present employees, and of the British Transport Police Force. We concluded that it would be best to have these and other similar obligations examined, in the first place, by Joint Teams of officers from the Ministry, the Board, and in some cases the other Government Departments concerned. These Teams were set up immediately after the Joint Steering Group began their work, and the results of their work have been reported to us over the last year.

1.6 We have met, in all, nineteen times as a full Group (one meeting extending over two days) and a great deal of work has been done by Sub-Committees and individual members, which in particular has involved the independent members of this Group giving up very many days of their time to the work of the Inquiry. As an example only, the Sub-Group which reviewed the Board's financial estimates met five times in nine days.

1.7 It has always been envisaged that it would take us at least a year to complete the work allotted to us, and probably rather more. We think it would be appropriate to draw attention to the fact that British Railways is a very large complex of businesses employing today over 340,000 people and that because of this, and of the relatively short time that has been available to us, it has not been possible for us to assimilate and report at the present time on the full ramifications of the problems involved.

1.8 The present Report covers our recommendations on the overall financial structure of the railways, the principles to be adopted for calculating, paying and controlling grants for unremunerative passenger services and on the overall management structure and organisation which we think most appropriate for the future. We should make it clear that on all three issues the Group have concentrated on the matters likely to require legislation; a great deal of further detailed work will be involved.

1.9 Section 2 of this Report sets out our financial recommendations and is based on work by the Board and by the Consultants.

1.10 Section 3 of the Report gives our main recommendations on the principles to be adopted for calculating, paying and controlling grants for unremunerative passenger services. This examination of grant principles has involved us in a consideration of the costing methods at present employed, since on these will depend the calculation of grants. As indicated in Appendix E, we are satisfied that the costing principles and methods at present used by the railways, although open to improvement in a number of respects, are generally sound and certainly on an interim basis adequate for calculating the grants required. We have also thought it right to give some attention to the various possible methods of reducing and controlling costs and increasing revenue on grant-aided services. These are described in Appendix D.

1.11 The Consultants have prepared a draft form of questionnaire for the Board to use in submitting applications for grants for unremunerative passenger services. This draft is now being used on a sample of some 25 such services. The Consultants have also produced information about the likely overall size of the grant required for this type of service. Appendix D records the work that has been done to date. As we make clear in that Appendix, we have been kept informed about the progress of thinking on Passenger Transport Authorities, and the extent to which it is proposed that they should become financially responsible for local services in conurbations. We have concluded that the detailed implications are not matters on which we need make recommendations. Appendix D to this Report also includes some comments on problems resulting from the allocation of track costs and the problem of subventions for bus services provided in lieu of withdrawn railway services.

1.12 Section 4 of the Report contains our recommendations on management structure. As we make clear in that Section, we had the benefit of very full submissions by the Board, and by the Consultants.

1.13 We consulted the Trade Unions and the views they expressed on finance and management structure have been taken into account in the recommendations in Sections 2 and 4. There were a number of other matters on which the Unions commented, and which seem to us worthy of mention, and these are set out with our further comments in Appendix A.

1.14 Paragraph (d) of our terms of reference required us "to assess whether and, if so, to what extent the cost of the railway infrastructure includes an element of 'standby capacity'". We have therefore set out at some length in Appendix B the views, which we accept, of a special Committee which we set up to study this matter. The main conclusion to which we came in the light of the Committee's detailed investigations, was that it was highly unlikely that "standby capacity" exists as a permanent element of any foreseeable railway network. (We are using "standby capacity" to mean capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that which the railways need for sound commercial reasons (e.g. to cope with predictable peaks or to assist operational efficiency).) We are satisfied that as a legacy from the past there is considerable surplus capacity, actual and potential, in the system. The Committee recommended, and we agree, that a programme of work should be settled to identify this surplus, to assess its costs, and to work out a programme for its elimination. We also recommend that a specific grant should be agreed, on a diminishing basis, with the aim of assisting, and hastening, the elimination of this surplus and the rationalisation of the system. This grant would pay for the estimated maintenance cost of the surplus, both existing and potential, in the system in 1969 and would reduce to zero over a period during which it should be practicable for the railways to rid themselves of it. Appendix B also includes an account of the work now in hand to implement these recommendations. A provisional figure for the cost of this surplus is included in the calculations and recommendations in Section 2 of this Report.

1.15 As regards the continuing obligations from the past referred to in paragraph 1.5 we have now reached conclusions on virtually all of these matters, and the financial implications of our recommendations are included in Section 2 of this Report. As will be seen, we conclude that together they amount to a sum of approximately £8m. per annum, and that the most appropriate way of recognising this is by taking account of it in the capital reconstruction, which we have recommended. The results of these studies are set out at greater length in Appendix C, which includes those of our recommendations which do not directly relate to finance.

1.16 The Minister and the Chairman may also find it helpful to know the extent of the further work which we have in mind, and the likely timetable. For convenience this can be set out under the six remits which we originally agreed with the Consultants, and which are set out in full in Appendix J to this Report.

Remit 1

1.16.1 We set up a Costing Progress Committee to review progress by the railways in developing and implementing the recommendations concerning costing contained in the original report by the Consultants, the main recommendations of which are summarised in Appendix E. Progress on this is being maintained by the Board, and a small research section has been established. We are satisfied that there are no recommendations capable of immediate adoption which are not being developed. Some recommendations will probably require reconsideration in the light of the further report from the Consultants which, as set out under remit 4 below, we hope to receive by the end of July. There are clearly a number of matters on which we shall wish to express a definite view, but we are unlikely to be in a position to do this before the autumn.

Remit 2

1.16.2 The sample study of 25 unremunerative services to which we have referred in paragraph 1.11 above is now being conducted jointly by the Board and the Ministry, in co-operation with the Consultants. We hope that the results of this will be available in the autumn, and propose to include the main results in a subsequent report to the Minister and the Chairman.

Remit 3.1

1.16.3 Separate Consultants are undertaking a study on train-load traffics, the results of which should be available shortly, and the Board are themselves undertaking an exercise on wagon-load traffics. We hope that we shall be able to report on progress with these studies in a later paper.

Remit 3.2. Marketing Organisation

Remit 3.3. Pricing Policy

1.16.4 The Consultants hope to submit their report to us shortly. Further work will certainly be necessary, particularly on pricing policy.

Remit 4. Review of Budgetary and Financial Control and Management Information

1.16.5 We had some preliminary comments from the Consultants in their first report on Costing, the gist of which we record in Appendix F. They hope to complete their main report to us by the end of July, 1967, with a further report a few months later dealing with procedures for the control of capital expenditure.

Remit 5. Procedures for Preparing Long-Term Financial Estimates

1.16.6 The Consultants will be doing some additional work under this remit on which they expect to report by the autumn.

Remit 6. Management Structure

1.16.7 It is clear that some further work will be required under this remit, and we propose to discuss this with the Consultants when their further reports are available.

1.17 We shall also be making recommendations under (e) of our terms of reference which requires us to examine the Board's investment programmes and the criteria for investment appraisal.

1.18 Accordingly we shall certainly wish to submit a further report in the autumn, and it may be appropriate, as circumstances develop, to put in short separate reports, rather than a further comprehensive one. We will keep in close touch with officials of the Ministry and the Board on the necessary timetable.

1.19 We conclude this Section by emphasising that our aim has been to provide the gist of our recommendations as shortly as possible, and in the most readable form. All our detailed papers, and the reports from the Consultants, are available both in the Ministry and in the Board. We have, therefore, confined ourselves as far as possible to a statement of our main findings and recommendations, with the minimum of supporting material.

1.20 Our conclusions and recommendations are summarised in Section 5 of this Report.

Section 2

FINANCE

INTRODUCTION

2.1 Paragraph 3 of the Annex to the White Paper on Transport Policy of July, 1966, (Cmnd. 3057) said that the social and other considerations which had led to the decision to stabilise the railway network also made it necessary to substitute a new financial framework for that imposed by the Transport Act, 1962. The requirement contained in that Act for the Board to "pay its way" by the beginning of 1968 was now entirely unrealistic and would, if pursued, force it into action which in many cases would be against the interest of the community and inconsistent with the Government's plans. It was therefore necessary for this framework to be amended to provide more realistic and appropriate financial objectives and a new financial framework and discipline.

2.2 One of the most important tasks implicit in our terms of reference was, therefore, to review the financial prospects of the Board in the light of current developments and the new policies indicated in that White Paper. When we began this review, it seemed likely that there would be a gap—possibly a large one—between the total of the Board's revenue, including the various direct grants which we had in mind, and their total costs. We therefore set ourselves the aim of viewing the whole of the Board's railway business as it would be in future years in the light of the Government's policies, taking account of future increases in efficiency, including those which should result from our current review. We have now completed an exercise on these lines, and can therefore make recommendations as to how the objectives set out in the White Paper can best be achieved. We have only just seen the very recent report by McKinsey & Co. on "Containerisation" which they prepared for the British Transport Docks Board but it is clear that the developments which they foresee could be of great importance for the railways.

2.3 We have looked in great detail at the problems involved in paying grants for unremunerative passenger services, and include some details of our work in Section 3 and Appendix D. It will be impossible to put forward a firm figure for the total of these grants until a great deal more work has been done, but we have agreed a tentative estimate (paragraph 2.14). We are also in a position, as a result of the work described in Appendix B, to put forward a rough order of magnitude figure for the grant that we recommend in respect of track rationalisation (paragraph 2.21). We explained in paragraph 1.5 that a number of Joint Teams had been set up to look at the various continuing obligations on the Board to which specific reference was made in paragraph (f) of our terms of reference, and we have now been able (paragraph 2.16) to put an approximate figure to the cost of these obligations. But we quickly came to realise that there is no possibility that these subventions could suffice to take the British Railways Board out of its current deficit position.

REVIEW OF LONG-TERM REVENUE FORECASTS

2.4 We therefore thought it right to ask the Board to produce detailed financial forecasts for 1969 and 1974 in order that we could look at the whole financial position as it was likely to be on the best assumptions that could be made. The Board discussed and agreed with the Ministry of Transport, and other Government Departments, the economic assumptions on which this study should be carried out, and these are set out in Appendix G.1. The Board produced detailed forecasts for both these years, comparing likely levels of revenue and costs, but ignoring interest, and their overall figures are set out in Appendix G.2. These forecasts showed that in the Board's view, on the basis of the assumptions, to which we have already referred, and assuming a continuance of present asset values and depreciation policy, they would reach a position of being in deficit to the extent of about £30m. on operating account in 1969, and would be likely to break even on operating account in 1974. But, as we make clear in later paragraphs, they would not be earning sufficient, even taking all the various types of grant into account, to pay interest on the whole of the existing capital debt.

2.5 These forecasts have been examined in some detail by a Finance Sub-Group. Whilst Board representatives attended all the meetings of the Sub-Group and gave such information and assistance as was required, it was agreed that they should not be regarded as members.

2.6 It is clear from this work that looking ahead as far as 1974 involves a considerable degree of judgment, and even speculation. The Sub-Group therefore concentrated their attention on those aspects of the forecasts where the overall outcome appeared to be particularly sensitive to variations in the basic assumptions used. On the cost side, the most important assumptions made by the Board concerned operating performance, the wages level, and the extent to which it would in practice prove possible to run down their manpower. Other key assumptions concerned the national economic environment, and thus demand for rail services and the prices which it would be possible for the Board to charge. The Sub-Group also thought it necessary to make a provisional examination of the level of investment implied by these forecasts, as it is obviously extremely relevant to remember that the Board's forecasts depend upon the assumption that investment will be available at the rate of about £100m. per annum.

2.7 The Sub-Group were also particularly concerned about the possible effects of inflation. As will be clear from Appendix G.1, the Board worked on an agreed assumption that there would be no change in the prices paid by the Board for materials and services, and that wages would rise at a rate of 3 per cent per annum. The railways might be seriously affected by inflation (particularly if their costs were inflated more than those of their competitors or the economy as a whole) and, whilst it is not yet possible for us to put forward detailed figures, we are arranging for further work to be done on this over the next few months.

2.8 Our views on the Board's figures can be summarised as follows:—

2.8.1 While the Board have given us every possible help, and answered all our questions as fully as possible in the time available, many of the most important forecasts are still subject to refinement as a result of further work which the Board are putting in hand, but which cannot be completed before the autumn.

2.8.2 Subject to this qualification, we feel that in general there may be more optimism than pessimism in the forecasts. The following factors need to be taken into account in putting forward a possible bracket of results:—

- (a) The reservations regarding investment and inflation made above.
- (b) The forecasts assume that there will be a steady expansion in the economy at about 3 per cent a year; slower growth or fluctuation could damage the railways.
- (c) The use of 1966 as a base may itself imply a degree of optimism; the 1967 results may now be considerably worse than those of 1966. It is unlikely in these circumstances that 1969 could show the improvement indicated in the forecast.
- (d) Postulated improvements in locomotive and crew utilisation, and in wagon working, might prove slower and more difficult to realise; this would worsen the results by several £millions.
- (e) It will prove difficult, even with special help, to reduce manpower at the rate implied in the forecasts.
- (f) There must be a danger of some traffics, particularly coal, falling short of expectations; on the other hand there is probably scope for increasing receipts through higher charges.
- (g) Freightliners are still at such an early stage of their development that estimates as far ahead as 1974 must be regarded as somewhat speculative.

Whilst different members may attribute different weights to these various factors, they are agreed on the broad conclusions set out in the next paragraph.

2.9 Drawing these various threads together, and making a reasonable allowance for the factors which might occur in combination, we have reached the conclusion that, unless there are major changes in policies, the bottom end of the bracket of likely results in 1974 might well be up to £40m. worse than forecast, before taking any account of interest. On the other hand, the top end of the bracket seems unlikely to be more than £10m. better. Both these figures take no account of the various subventions from the Government which we recommend should be available. It should be noted that the range of £50m. suggested above is equivalent to about 5 per cent of the combined revenue and expenses of the undertaking, and this is looking seven years ahead; thus, while we think these figures are sensible for planning purposes, it is not impossible that the results might fall right outside this range.

2.10 The range quoted in the previous paragraph is given simply in order to provide a guide to the Minister and the Chairman when considering the question of the extent to which capital reconstruction will be required. In our collective judgment, the most likely outcome *on present trends and policies* may well be somewhat more unfavourable than the Board predict in the figures quoted in Appendix G.2. But we do not wish to give the impression that nothing better than this is possible, and certainly it would be entirely wrong for the Board to feel that it would be satisfactory if they do no better than achieve the mean point of the figures quoted above. They have said that they hope to do better, and should set themselves the target of doing so, provided the trend of the economy and other matters outside their control work out as favourably as has been assumed for the purpose of these forecasts.

EFFECT OF GRANTS

2.11 Before considering the degree of recapitalisation that may be desirable, we have had to consider the nature and scale of the various types of grant that may be available to the Board.

Social Grants for Unremunerative Passenger Services

2.12 Section 3 gives our main recommendations on grants for unremunerative passenger services, and Appendix D explains the progress that has already been made in devising a detailed procedure for dealing with these grants. It will not be possible to put forward anything like an accurate total for these grants until at least a considerable number of services have been looked at in great detail. In the meantime, we asked the Consultants, in association with the Board's officers, to make the best estimate they could of the likely order of magnitude for the total of these grants. In view of the time available for the preparation of the estimate, it was necessary to use information on the earnings and direct costs of services which was already available. Much of this was somewhat out of date and had to be adjusted to take account of changes in price levels, and fairly broad assumptions had to be made about track and signalling costs. On this basis, the Consultants said that the total deficit on all loss-making passenger services was £83m. p.a.

But to make the figure compatible with those quoted in Appendix G.2, it is necessary to exclude

Services on "grey" or "thin black" lines* which it was assumed would be withdrawn by 1969 £14m.

Interest related to the remaining services £17m.

£31m.

On this basis the adjusted deficit is... £52m. p.a.

* As explained in the Foreword to the British Railways Network for Development, published in March, 1967, the thin black lines show lines for freight only. The grey lines represent routes which on present evidence were not proposed for inclusion in the basic network.

2.13 A broad analysis is:—

Suburban	...	...	...	...	£18m.
Stopping	...	...	...	...	£21m.
Principal and Secondary	...	...	...	...	£13m.
Total	...	...	...	...	£52m. p.a.

2.14 It is likely that certain of the services which are included in the above figures would not in fact be submitted for grant by the Board, either because they considered that the services could be made viable by management action or because they wished to retain them for sound commercial reasons. It is also clear that if there were to be a somewhat greater degree of aggregation of services, the total deficit quoted would be smaller, because the surplus on other services would counter-balance the loss on the services included above. On the other hand it may be that on investigation it will prove right further to subdivide some of the services with a consequent increase in the losses ranking for grant. The net effect of these qualifications is likely to be a reduction in claims, particularly for suburban and principal and secondary services: in relation to the latter the case for a grant on social grounds might often not be strong. After taking all these points into account, the Board estimate that the total grants (excluding interest) which they might actually expect to receive in 1969 and 1974 will not exceed the figures of £40m. and £35m. These may prove to be over-estimates if efficiency can be improved, or the services pruned, more than now seems likely; or as a result of applications for grant being rejected, in which case the services in question would presumably be withdrawn. In these circumstances the Board's basic figures would be similarly affected and the net result would be the same.

The Board's Continuing Obligations Deriving from the Past

2.15 We have described in some detail in Appendix C the work that has been done on these continuing obligations by the various Joint Teams whom we set up at the time of our appointment. We are agreed that there is no need for specific financial treatment in respect of *Museums* and *Historical Records*, where we hope that the Board's responsibilities can largely be handed over to the Department of Education and Science. As regards the *Savings Banks* there is no short-term problem, but the interest on these deposits, and also on the *Superannuation* funds, has to be taken into account when we come to assess the total amount of interest burden which it would be appropriate for the Board to carry for the future.

2.16 The specific obligations which should be mentioned at this stage are:—

2.16.1 Road Bridges, a sum of about £1½m. per annum.

2.16.2 Level Crossings, a sum of about £1m. per annum.

2.16.3 The British Transport Police (in respect of their services to the public as a whole) say £½m. per annum and

2.16.4 The Board's Superannuation obligations resulting from the decisions of their predecessors—about £5m. per annum.

2.17 We considered whether it would be appropriate to meet these obligations by some kind of specific or general grant. There would, however, be considerable practical difficulties involved in arranging for such grants, and agreeing the amounts. The general nature of the grants would moreover be quite different from the type of specific grant which we are recommending in respect of unremunerative passenger services. We have therefore come to the conclusion that the sensible way in which to deal with these relatively small sums is to take account of them in the recapitalisation which we discuss later in this Section.

Track Rationalisation

2.18 Paragraph (d) of our terms of reference required us to assess "whether and, if so, to what extent the cost of railway infrastructure includes an element of 'standby capacity'". We have in fact made intensive enquiries into the ramifications of this subject, and a brief summary of our work is included in Appendix B. We have concluded that, strictly speaking, "standby capacity" other than that required by the railway for commercial reasons or for operational convenience, does not exist as a permanent feature, but there is a considerable measure of surplus capacity, actual or potential, in the system, the cost of which is bound to swell the Board's deficit until it can be eliminated. This surplus is not mainly related to the route mileage of the system or to the decision to retain and develop a basic network of 11,000 route miles. It is almost wholly to be found in the shape of excess *track* mileage (e.g. four tracks, where two would suffice to carry the traffic). This is one of the inherited liabilities of the railway which, in the light of the policies which we recommend for the future, should be eliminated as quickly as possible. The amount of the surplus is not static and additional surplus should be continuously created with changes in equipment and operational methods. For the purpose of settling this grant, however, it is proposed to confine consideration to surplus which exists now or can be created before 1974. We hope that it will be possible for the Board to identify and cost all this surplus capacity within the next 18 months. But they have explained that, even so, there are good technical reasons why much of this surplus cannot be eliminated as soon as it is identified. In many cases it will involve alterations to alternative routes, the rationalisation of services, the installation of improved signalling and possibly even the removal of old stations or the building of new ones. Where these steps are necessary they may well take a number of years. But, until they can be carried out, the Board will have to carry the cost of this surplus. We are therefore satisfied that there is a case, exceptionally, for the Ministry paying a specific grant whose purpose should be to assist, and hasten, the elimination of this surplus and the rationalisation of the system. Whether this grant should also cover any part of the capital cost of removing the surplus has still to be considered.

2.19 We have already explained why the other historic liabilities under which the Board suffer can most conveniently be dealt with by means of a capital reconstruction. The fact that this infrastructure surplus is a liability which can be substantially reduced over a period of a few years means that, from the finance angle, the appropriate treatment is a specific but tapering grant, rather than capital reconstruction. We are therefore recommending that the Board should be paid, in the first year, a grant which should meet the assessed cost of this surplus, but that the grant should thereafter be reduced at an agreed rate, so that it reaches zero at the earliest period by which the Board could be expected to have removed at least the greater part of this surplus. We suggest that this period should be fixed at 5 years.

2.20 We think we should emphasise that in recommending such a grant, we regard it essentially as a tool for securing the most rapid possible rationalisation of the system. Although the Board gets no benefit from the retention of unnecessary capacity, we think they would be helped by an incentive to get rid of it rapidly. If a grant is agreed on the lines we propose, it should represent a challenge to the Board to deal with the situation as drastically and as rapidly as circumstances and the available resources permit.

2.21 As set out in Appendix B, the Board will not be able to put forward a precise figure for the cost of this surplus until towards the end of 1968. In the meantime, they have produced an order of magnitude figure which, for the year 1969, is a bracket from £11m. to £17m. They believe, and we accept, that this may represent something of an underestimate, and we suggest that for the current overall financial exercise we should assume that the grant in 1969 will be at a rate of £15m. per annum. If this is accepted, then it is fair to assume that by 1974 rationalisation will have reduced their costs by something near to this amount (even although the grant will no longer be payable), and we have therefore assumed a £15m. improvement in their finance for both years.

Subventions to Operators of Bus Services provided as a Condition of the Withdrawal of Rail Services

2.22 These subventions cost the Board £500,000 in 1966. This figure will certainly increase, at least in the short-term. We are still unable to make specific recommendations as to how this financial responsibility can best be removed from the Board, as any new arrangements should fit in with the general structure of the policies for the bus industry generally which are currently being developed within the Ministry. But we are agreed that, as part of the overall financial reconstruction which we are recommending, the Board should be released from these burdens, and we assume in the following paragraphs that a way will be found to achieve this.

THE BOARD'S FUTURE FINANCIAL STRUCTURE

2.23 The Board's current interest-bearing debt, as set out in their 1966 Annual Report and Accounts, is as follows:—

	£
Interest-Bearing Capital Liabilities to Minister of Transport...	912m.
Savings Bank Deposits	36m.
Superannuation, etc., Deposits and Provisions	275m.
	<u>1,223m.</u>

	£
In addition, the suspended debt (on which no interest is payable) totalled	705m.
but the capital deficit arising from adjustment of book values of vested net assets could be offset against this ...	315m.
leaving a total of	<u>390m.</u>

2.24 The following table sets out the likely figures for the Board's financial position in 1969 and 1974 including the effect of the proposed grants.

SUMMARY OF LONG-TERM REVENUE FORECASTS

	1966 £m.	1969 £m.	1974 £m.
1. Deficit/Surplus before calculation of grants and interest			
Per Appendix G.2.	72	30	—
Adjustment in accordance with paragraph 2.9 —say	—	0-25*	10-40
Adjusted result	72	30-55 *	10-40
Grants, excluding interest, in respect of unremunerative passenger services	—	40	35
Track Rationalisation Grants and Track reductions	—	15	15
2. Deficit/Surplus before interest payments (or interest receipts in respect of grants)	72	25-0	60-10
3. Interest, assuming no change in present basis of capital obligations			
Payments	64	70	80
Less: Grant receipts	—	15	15
Net	64	55	65
4. Deficit/Surplus after Grants and interest (2 less 3) ...	<u>136</u>	<u>30-55</u>	<u>5-55</u>

* No specific estimate for 1969 is made in this Section of the Report, but the above figures assume a narrower bracket for 1969 than for 1974. At the upper end of the bracket, it is assumed that the Board will be permitted to offset the deterioration in 1967 by increases in charges.

2.25 These figures demonstrate that, if the Government policy set out in the White Paper is to be carried into effect, a considerable write-off of existing capital debt to the Minister is inevitable. The White Paper said that after the Government had assumed responsibility for losses on services retained for social reasons, the Board should then be given realistic financial objectives to assist them to move as soon as possible to a fully economic basis of operation. Even on the most optimistic assumptions the Board cannot be expected to do this on the basis of their present debt.

2.26 We are agreed that recapitalisation must be on a realistic basis, and must not look too far ahead to a period where the uncertainties become great. We recommend therefore that the capital reconstruction should be carried out on a basis which does not foresee quite such a rate of recovery as is suggested by the Board's revenue forecasts, and that the aim should be to put the Board in a position of break-even, including interest payments, in the early 1970s.

2.27 We regard it as obvious that the Board must be put in a position where they can continue to honour their obligations in respect of the interest-bearing deposits and provisions for the Savings Banks and Superannuation and Retirement Funds, etc. Any recapitalisation which is considered can relate only to the Board's debt to the Minister.

2.28 Subject to the figures which the Board produce later in the year not being drastically different, we see no reason why it should not be possible to put the Board in a break-even position by about 1971. Whilst this would certainly involve a drastic writing down of their capital debt, we do not believe that this need go beyond the bounds of acceptability. Transitional deficit grant powers may well be needed to cover the period from 1969 to 1971, but it is an important part of the scheme which we recommend that no future deficit grant powers need be envisaged for the period after 1971. In other words, we think it essential that the Board should be put in a break-even position at an early date, and that they should then be seen to be in a similar position to other nationalised industries, with no need for the Minister to have powers to make grants to meet any deficit that they might incur in an individual year.

2.29 It is considered that the capital reconstruction envisaged should be matched by an equivalent writing down of asset values. Such a writing down would have the consequence of reducing the amount of depreciation which the Board would have to provide each year, and would thus increase the margin of revenue it had available for servicing capital debt. In working out the detailed figures, however, consideration should be given to shortening the depreciation lives of certain assets, for instance because of the risk of technical and commercial obsolescence.

2.30 If in any year the Board did in fact fail to earn enough to meet all their liabilities, including interest, the main effect would be that they would not have earned their depreciation in full. Depreciation (including amortisation) is a provision in respect of the consumption of fixed assets which involves no cash expenditure year by year. The expenditure arises only when the assets have to be replaced. Nonetheless, under the present system, Exchequer grant is issued in respect of the depreciation provision, and the Board are provided with cash in excess of that needed to meet operating losses; this cash is available towards their current capital requirements. Under our proposed scheme, the Board would no longer have the cash from depreciation unless they actually earned it. They would have to borrow the sum required to make up any deficiency. But given the estimates which the Board and the Ministry make of the position up to 1974, and on the basis of the degree of recapitalisation which we have in mind, this situation should not present an intolerable burden. We do not think that even over the following few years, it need become unmanageable, though we recognise that there will be a need for a continuing financial improvement after 1974 if investment is to be sustained at its present level.

2.31 There are two further comments which we should make:—

2.31.1 We are recommending a very drastic approach to the problem. A possible consequence might be that more capital is written off than proves

to have been necessary. If this should prove to be so, the Board might well earn a considerable surplus. But Section 18 of the 1962 Act already provides for the establishment of a general reserve as a charge on revenue, under the Minister's control. In addition the Minister will, we suggest, need a power, on the analogy of that contained in Section 3(9) of the Air Corporations Act, 1966, providing for the capital reconstruction of BOAC, to direct, after consultation with the Board, that any amount surplus to the Board's requirements should be paid into the Exchequer.

2.31.2 We believe that to put the Board's financial structure on a break-even basis, and to remove the "safety-net" of a deficit grant power, should re-inforce the Board's internal financial discipline.

2.32 We do not think that it would be right for us to recommend precisely how much the write-off should be. We have, as yet, only fairly rough figures available, and the precise figures for recapitalisation will need to be determined over the next few months in the light of the position that will emerge as the Board's own financial forecasts are further refined and, it is hoped, the economic outlook becomes clearer. Certainly there will be a need for the figures to be discussed in detail between the Board, the Ministry and the Treasury. But, clearly, the Minister and the Chairman would expect us to recommend the principles which any recapitalisation should follow.

2.33 As an indication of orders of magnitude, however, we might make the following points:—

2.33.1 If the remaining suspended debt were written off, and asset values written down accordingly, the depreciation allowances to be provided in the Board's accounts could be reduced by some £15m.-£20m. There would be no immediate effect on the interest burden.

2.33.2 If, say, £100m. of the "live" capital debt to the Minister were written off, and asset values were written down correspondingly, the interest burden would be reduced by £6m. per annum and the depreciation provisions could be reduced by £5m. per annum.

2.34 Recapitalisation on the scale required to meet the recommendations summarised in paragraph 2.39 is recognised as a matter of real gravity, and represents the acceptance (which is essential) of the fact that British Railways' earnings simply are not sufficient to support the total assets now employed in the business, even when allowance is made for specific social, etc., grants. It is thus a step in line with the aims set out in the White Paper on Transport Policy of July, 1966, (Cmnd. 3057) of providing British Railways with realistic burdens and assets and will enable their efficiency to be judged by normal financial criteria.

2.35 Nevertheless it is also recognised that recapitalisation is merely an accounting device to align the book value of British Railways' *existing* assets with their earnings and of itself does nothing to render British Railways more commercially viable in the future when assets will be replaced at the full cost of such assets at that time. The recapitalisation is, however, recommended in the expectation that it will help British Railways' management to solve the basic problem of aligning the actual value of their future assets with future earnings, that is, ensure that the quantity and type of assets that are actually replaced in the future are only such as can be supported by future earnings.

2.36 Moreover, it is not envisaged that the recapitalisation will involve a relaxation of financial discipline; on the contrary it should enable it to be exercised more clearly and thus impose on British Railways a very considerable responsibility. In the opinion of British Railways this responsibility is made all the more serious because of the fact that their capitalisation is wholly on the basis of fixed interest.

2.37 The whole of this Section is based on our assumption that, apart from the unremunerative services to be grant-aided on social grounds, the Railways Board will have freedom to manage their activities on a commercial basis.

2.38 One member of the Steering Group feels strongly that the present method of financing the nationalised industries by fixed interest capital is wrong, at least as regards the railways, and that the introduction of an "equity" would be particularly suitable in the circumstances of that industry. Since, however, we have been informed that the Government would be most unlikely to accept this, we have not pursued the matter further.

RECOMMENDATIONS

2.39 In the light of all these considerations we make the following recommendations:—

2.39.1 the capital debt of the Board should be written down to a level at which it can reasonably be expected that the interest payments can be found out of prospective revenue early in the 1970s;

2.39.2 the "break-even" thus envisaged should be based on neither too optimistic nor too pessimistic a forecast of the Board's revenues in the early 1970s;

2.39.3 the capital write-off involved would in part be justified by taking account of the continuing obligations of the Board in respect of railway road bridges, level crossings, superannuation, and the Police, as described in paragraph 2.16;

2.39.4 the capital reconstruction envisaged should be matched by an equivalent writing down of assets values;

2.39.5 appropriate arrangements should be made for dealing with any surplus on revenue account in case, as a result of following the previous recommendations for cutting down the capital debt, the amount of write-off necessary has been overestimated;

2.39.6 there should no longer be provision for deficit grants from the Minister (except perhaps for the transitional period 1969 to 1971): and in particular, no deficit grant should be payable in respect of depreciation provisions.

Section 3

METHODS OF CALCULATING, PAYING AND CONTROLLING GRANTS FOR UNREMUNERATIVE PASSENGER SERVICES

INTRODUCTION

3.1 We interpret paragraph 25 of the White Paper on Transport Policy of July, 1966, (Cmnd. 3057) to mean that a grant ought to be payable wherever the Minister on broad social and economic grounds decides to retain a particular passenger service, the revenue reasonably attainable from which falls short of the properly attributable costs.

3.2 The same White Paper also refers in paragraph 27 to the possibility that local authorities might assume some, at any rate, of the financial responsibility for such passenger services. We know that this is under consideration in the Ministry, but for the purposes of this Report we have concentrated on the principles and methods to be adopted where the grants are paid by the Minister of Transport. This does not imply that similar principles should not be adopted where the grants are to be paid by Passenger Transport Authorities or local authorities.

CALCULATION OF GRANT

3.3 We recommend that grants should be based on an assessment of net losses likely to be incurred over a future period of time, rather than on the basis of payment in arrears in respect of actual losses incurred. We make this recommendation because we believe that this will present a considerable inducement to the railways to run their grant-aided services as efficiently as possible so as to reduce actual losses. Furthermore, if grants are paid on an estimated loss, this will considerably reduce the need for audited accounts of each service and the possibility of dispute about detailed figures. It should also offer an incentive to the Board to reduce losses on the grant-aided services.

3.4 We have concluded that once a grant has been agreed in principle, it should, as far as possible, cover all the costs which the Board incur in respect of that service (including some part of joint costs) and which they are not able to recover from the receipts from the service.

3.5 We recommend that terminal and track and signalling costs incurred on facilities used only by grant-aided passenger services should be charged to those services.

3.6 We refer in paragraph 3 of Appendix E to the further research which is to be undertaken to determine how costs vary with the volume of traffic. This will inevitably be a lengthy process but will help us to see how far, in respect of any of these unremunerative passenger services, there are true "joint costs", (defined by the Consultants as those associated with the situation where the production of one product enables the production of another to take place at no extra cost) (Para. 2 of Appendix E). Costs which vary with output should certainly rank for grant. It is arguable that true joint costs should remain the responsibility of the Board but we do not accept this view because it would mean that, in practice, the Board's remunerative services would have to carry the full joint costs and thus cross-subsidise the unremunerative. Pending the completion of studies into joint costs and the development of a more precise formula for calculating grants for individual passenger services, we had total figures prepared as a basis for examining the Board's general financial prospects (Paras. 2.12-2.14). For this purpose all costs were treated as fully variable and apportioned to the services concerned on the basis used by the Board for passenger profitability studies.

3.7 As regards general administration costs, we recommend that it would be appropriate to allocate to the grant-aided services a proportion of those costs that are properly attributable to passenger traffic.

3.8 We recommend that the grant payable should include depreciation, and we further recommend that this should be assessed on a replacement cost basis, and not on historic costs. We also recommend that grants should include

an allowance for the appropriate interest charge on the assets used in providing these unremunerative passenger services. When the grant is paid by the Ministry we recommend that the basis should be a reasonable attribution of the actual interest payable by the Board. This should be subject to further discussions between the Ministry and the Board.

3.9 We agree with the Consultants' recommendation that it would be inappropriate, in calculating grants, to take any account of contributory revenue although, in deciding whether a service should be retained, and grant-aided, both the Board and the Ministry will no doubt have to take into account the amount of contributory revenue that may be at risk. Contributory revenue is the off-service revenue of journeys partly on and partly off a service.

3.10 We regard it as important that the principles to be adopted for the calculation of grants should be consistent with those adopted generally for costing within the railways, as otherwise any arrangement would be open to misunderstandings and criticism. It does not follow that the financial accounts should accord in all respects with the costing formulae; in particular, depreciation will be charged for accounting purposes on the basis of historic costs.

APPLICATION FOR GRANT

3.11 We recommend that three years should normally be the period for which grants should be fixed in advance. If the period is kept to three years, this will be long enough to provide an incentive, and short enough for it not normally to be necessary to include any provision for review of individual cases during that period, though wage increases seem to raise special difficulties, as they can hardly be taken into account in advance, and we discuss this further in paragraph 3.14. If costs other than wages rise above those ruling at the time when the grant was fixed, then the Board will have to cope with these, and should not be able to ask for any increase in grant until the termination of the three year period, except in the circumstances described in paragraphs 3.15 and 3.16. The dates for review of grants for particular services should be staggered to ease the administrative burden of assessment and review, and in order to set up this arrangement initial grants may have to be paid for shorter periods than three years in a proportion of cases.

3.12 Requests for grants should be submitted service by service, by the Board. In each case the Board should submit to the Ministry sufficient details (see paras. 3-6 of Appendix D) to show that the services are being operated efficiently and that all means of reducing costs, while providing an adequate standard of service, have been fully explored. They should also give whatever information they have of the demand for those services, and the extent to which this demand will be met by the proposed service, to enable the Minister to decide, in the light of all other relevant considerations, on the merits of the case for grant on broad social and economic grounds. Where there is a major traffic reorganisation in contemplation, in conurbations for example, additional information may need to be sought.

CONTROL BY THE MINISTRY

3.13 We recommend that in addition to careful scrutiny of the Board's submissions, the Ministry should select for detailed review a sample from the cases submitted to them. This review should not include a check of the calculations, but this would be done in a proportion of cases by an independent accountant who might be the Board's auditors.

3.14 The Consultants originally recommended that no provision at all should be made for the escalation of costs. But the development of the questionnaire described in paragraphs 3-6 of Appendix D has shown that in practice the Board will be required to take into account any possible economies in calculating the amount of the deficit to be grant-aided. Accordingly we think some way will have to be found of helping them to deal with wage increases, which could represent a very substantial increase in costs. We are giving this further thought.

3.15 We recognise that for very large services, particularly in conurbations, it may be necessary to provide for a review if circumstances change significantly during the three year period.

3.16 The Minister must have control over the frequency and standard of service, and the maximum fares, on any grant-aided service. The Board should be entitled to ask for a review of the grant if there is an increase in the deficit on any service as a direct result of the exercise of the Minister's control.

3.17 Furthermore, because any capital investment on such a service will affect the future level of grant, the Board should be required to refer to the Ministry for specific approval any proposed capital expenditure over a stated amount, including any renewals, which is made in respect, or in partial respect, of a grant-aided service. If such a service is withdrawn before the fixed assets have been fully depreciated, then the Board will make a capital loss, and ways will have to be found of meeting this (e.g. by writing off the unexpired balance against capital account). There will be a similar need in cases where expenditure on renewals and periodic maintenance is not fully recovered before a service is withdrawn.

3.18 Grants should be paid by the Ministry to the Board at 4-weekly intervals. These sums should be calculated as being 1/13th part of the annual agreed amount for each service. Where the period fixed for a grant has come to an end, and a decision has not yet been taken by the Ministry as to whether the grant should be renewed, at the same or any different level, then pending such an agreement the grant should continue to be paid, at the previous level, with any necessary retrospective adjustment when the new grant is agreed.

3.19 The Board should be required to give the overall estimated financial results, in respect of grant-aided passenger services, in their Annual Report. The time that would be required to ascertain these figures would probably make it impossible to include audited figures in the Accounts.

3.20 We think it reasonable that the Ministry should be supplied with figures, at agreed intervals, in respect of each grant-aided service, to show the extent to which the service is being used. These figures would not relate to the financial results, but could take the form, for example, of passenger counts.

LEGISLATION

3.21 We suggest that as far as possible the legislative provisions should be widely drawn. The essentials are:—

3.21.1 that the Minister should have power, in respect of individual unremunerative services:

- (a) to decide that they should be continued on broad social and economic grounds,
- (b) to agree with the Board the level of service to be provided,
- (c) to decide on the level of grant to be paid for a period of up to three years ahead,
- (d) to call for information about the extent to which such services are in fact being used.

3.21.2 that the Board, in addition to supplying the details mentioned in paragraph 3.19, should be under an obligation to refer any proposals for major capital expenditure in respect of any such service to the Minister.

3.22 All the above recommendations relate to legislative proposals. In the meantime, and as soon as possible, we recommend that calculations on the basis set out in paragraph 3.3 should be carried out, that the Ministry should reach decisions on individual services as though grants were to be paid, and the amounts concerned should be noted in the Annual Reports, in order that the extent to which the Board's deficit relates to services which, for the future, will be specifically grant-aided by the Ministry, can be readily seen.

3.23 Other aspects of the arrangements for paying grants in respect of unremunerative passenger services are discussed in Appendix D as explained earlier in paragraph 1.11.

Section 4

BOARD STRUCTURE AND ORGANISATION

PRESENT POSITION

4.1 Section 1(3) of the Transport Act, 1962 provides that the Board shall consist of a Chairman, one or two Vice-Chairmen, and not more than sixteen nor less than ten other Members. It also provides that Board Members are to be appointed by the Minister from among persons who have had wide experience of, and who have shown capacity in, transport, industrial, commercial, or financial matters, administration, applied science, or the organisation of workers. At present, there are a Chairman, two Vice-Chairmen, seven full-time Members and four part-time Members. All the full-time Members, other than the Chairman and the newly appointed Vice-Chairman, have functional responsibilities.

4.2 Section 2 of, and the First Schedule to, the 1962 Act provide for the setting up of six Regional Railway Boards to share between them responsibility for all parts of the national railway system. Subsection 2(2) gives the Minister power, by order, to vary the number of Boards. Subsection 2(4) provides that the Regional Railway Boards shall exercise such functions of the Railways Board as are delegated to them by the Board, and the Board have to determine these functions on lines settled from time to time with the approval of the Minister. At the present time, as a result of an order made by the Minister in 1966, there are only five Regional Railway Boards.

METHOD OF WORK BY THE GROUP

4.3 We have had the benefit of a statement by the Railways Board in which the Board's own proposals for a new structure and organisation of the railways are set out. The Group also received a separate report from the Consultants, including recommendations based on the experience they had gained over the whole of the railways organisation since the beginning of their appointment as Consultants to the Group.

4.4 In addition we were fortunate in obtaining the services of the Senior Partner of the firm of Consultants employed on this assignment who interviewed separately each of the Group members and collated their views in a report to the Group, and in addition provided a separate paper giving an indication of his own views which he had formed in the course of these discussions.

4.5 The Group have considered carefully all the views which have been put forward to them in these several reports and our conclusions are set out in the following paragraphs.

THE PROPOSED FUTURE STRUCTURE AND ORGANISATION

Factors Affecting Overall Structure and Organisation

4.6 The British Railways Board control a complex of many businesses. As in any business it is essential, if profitability is to be ensured, to match production and sales, but the transport industry has the characteristic that transport cannot be stored. It is also vital to plan railway services in such a way as to maximise utilisation of all the assets, including manpower. In many cases, this involves decisions about the allocation of resources, when the priorities between different types of service have to be assessed. Furthermore, all such decisions depend, in the long run, on adequate co-ordinated long range planning. It follows therefore that general management is required at the centre to ensure that all forward planning activities are properly co-ordinated and carried out within the framework of agreed objectives and overall strategies.

4.7 On the other hand there is a need for dispersed management. Both the scale of railway operations, and the geographical dispersion of the system require local managements with authority to make decisions on day-to-day matters. This local management must operate within general policy lines laid down by general management at the centre.

4.8 The future management structure requirements of the railways will clearly be influenced by a number of factors which have already become evident but which are likely to become more marked in the future. The most important of these are:—

- 4.8.1 the continuing rationalisation of the system by the elimination of facilities (track, marshalling yards, terminals) which are no longer required;
- 4.8.2 the more intensive use of the developed system;
- 4.8.3 the continuing reduction in the labour force;
- 4.8.4 the trend towards a more ordered pattern of operation both for passenger and freight services.

These will make it even more vital to develop sophisticated planning and control techniques, including the use of computers, both for day-to-day control and for "model" building.

4.9 All these considerations suggest an increasing trend towards the centralisation of the planning of railway operations with at least the main trunk services, passenger and freight, being directed from the centre. This will also be required if the Board are to develop their relationships with the new national and regional transport organisations which are to be set up. Strong central financial control will also be required if the Board are to achieve the financial targets which we have recommended in Section 2 of this Report. These financial objectives will make it even more important for the Board to ensure that there are comprehensive plans, covering each main section of their business, for the achievement of these objectives.

4.10 At present, the Board's Headquarters is organised into functional departments headed by Chief Officers who in turn report to Board Members. As indicated above, all the full-time Board Members, except for the Chairman and one Vice-Chairman, have functional responsibilities. It is the consensus of opinion amongst us that full-time members should be without the direct executive line responsibility that they have under the present arrangements.

4.11 Relations between the Board and the Regions may have been complicated by the Regions having a statutory status under the 1962 Act, and by the philosophy of that Act being that the Regions were to have the main responsibility for the "management of the railways". We doubt whether a split statutory responsibility for the management of the railways, and the present independent statutory position of the General Managers, can be conducive to ideal relations between the Board and the Regions.

Scope of our Recommendations

4.12 Railway problems are unique, both because of the size and geographical spread of the industry and the nature of its operations and commercial activities. Many of us are without direct experience of the industry and can only base our opinions on acquaintanceship with its problems and the limited study that has been possible over the last year. We are also conscious that the setting up of the National Freight Organisation, and a number of Passenger Transport Authorities, will obviously influence the shape of management structure appropriate for the Railways Board. Furthermore, we have pointed out that there are a number of developments which are leading to a greater element of central direction. We could not, therefore, claim to be in a position to make specific recommendations about all the details that will be involved in the new organisation. But we feel confident in putting forward some general principles which should be observed in any new organisational structure.

Timescale

4.13 We think it best to frame our recommendations in the light of the ultimate shape and structure for the industry which we think will be appropriate in a few years time when the "new railway" is in existence. We are, in the following paragraphs, recommending a different type of Board designed to meet the situation then likely to exist, and this will affect the overall structure and geographical organisation of the railways. It may well be that none of the changes

which we propose can be implemented quickly. We accordingly emphasise that there will be a need for a transitional period during which these changes can be effected. We accept that the determination of the precise provisional arrangements which will operate during this transitional period must be for the Ministry and the Board. These arrangements will have to take account of the inevitable practical and human problems involved. We do not think that it would be appropriate for us, in this Report, to attempt to deal with these transitional problems. We recognise that they will be difficult, but we are concentrating on what we believe should be the ultimate objectives.

Proposals for the New Board

4.14 In our view, the Board should as far as possible be free to concentrate on policy questions and in particular on the problems of future planning, and the individual members should not be tied down by day-to-day responsibilities for specific functions. We are therefore generally agreed that it would be sensible that ultimately the Board should consist largely of non-functional members and should be smaller than at present.

Top Management and Responsibility for Co-ordination

The Chairman

4.15 We accept the view put forward by the Board that the Chairman must be given some relief from his present heavy load of day-to-day responsibility. He inevitably has many commitments of a more general nature, and it is therefore desirable that he should be free from day-to-day matters as much as possible in order to be able to concentrate on the major issues of policy and to project the Board's image both within the organisation and to the public at large.

4.16 Clearly it is the Board itself which will carry the ultimate responsibility for policy and direction of the railways and for the overall performance of the undertaking. But the Chairman has a particular responsibility for these matters, not least in his relations with the Minister and with Parliament. All the members of the Board, including those with executive responsibilities. All whom we refer in paragraphs 4.18 to 4.28 inclusive and 4.30 below, will regard themselves as responsible to the Board as a whole.

4.17 We consider that the Chairman must have time to devote to top level management planning problems. No doubt, a Chief Officer would be responsible for the major personnel planning issues, and we think that, exceptionally, such a Chief Officer should report direct to the Chairman on questions of management development.

Need for a "Chief General Manager" for the Railways as a Whole

4.18 If the Chairman is to be relieved of his day-to-day responsibilities, and the Board is to be reconstituted as we suggest above, the great majority of us are of the view that it will ultimately be desirable to have a single person to control and co-ordinate all aspects of the day-to-day running of the railway. Whilst we do not wish to assign a specific title to such a person, we envisage him as a kind of Chief General Manager, responsible for the railway as a whole, and for convenience we refer to such a person below under this title.

4.19 We envisage that the Chief General Manager would provide leadership and direction to the Regions and/or Divisions, and would be the focus of the Board's headquarter functional organisation insofar as it is concerned with current policy making and the efficiency of the business. He would be in a position to provide the necessary degrees of co-ordination between commercial, operating and technical requirements in respect both of passenger and freight traffic.

4.20 The burden on one man would necessarily be extremely heavy. But the great majority of us are agreed that, under whatever title, there must be one man whose responsibility it is to take the ultimate decisions on day-to-day matters—or see that they are taken, and are duly implemented. The emphasis should be on his responsibility for the effectiveness of the organisation, rather than on his

taking personal decisions. Many of us do not think that it would solve the problem to split this duty between two Vice-Chairmen, as it would tend to mean that, in practice, difficulties would have to be resolved by the Chairman. We therefore recommend that there should be a single Chief General Manager, recognising that he will need a considerable staff in support to whom he will delegate on a substantial scale.

4.21 The Chief General Manager must have a position of sufficient status and authority within the Board, and publicly, to enable him to do this job. Clearly he must be a member of the Board, and it might well be the case that it would normally be appropriate for him to be appointed as a Deputy or Vice-Chairman. But we recognise that circumstances and personalities change from time to time, and we do not think that the legislative provisions for the Board need define his status on the Board.

Planning and Finance

4.22 These are two areas which are so important, and which will have so pervasive an effect on the work of the Railways Board as a whole, that we recommend that it will be essential to appoint members to the Board with specific responsibilities for these two aspects of the Board's work.

4.23 We recommend that one member should be responsible for the co-ordination of long range planning in the railways. We suggest that he must have specific responsibility for

4.23.1 ensuring that there are coherent, comprehensive and compatible objectives, strategies and long range plans for each main sector of the business, directed towards the achievement of the overall financial objectives of the undertaking;

4.23.2 establishing a systematic organisational and procedural framework in which all planning activities should be carried out and the results monitored; and

4.23.3 co-ordinating all the long range planning activities in the railways wherever carried out.

4.24 It would be necessary for this member to be supported by a corporate planning department consisting of people with varying knowledge and experience.

4.25 He could also be directly responsible for management organisation planning and probably for an economic and commercial studies department which would include market research. Possibly he could also include technical research and development within his sphere of interest.

4.26 We also recommend that there should be a member appointed with specific responsibility for finance. He would have a special responsibility for

4.26.1 the overall financial policy of the undertaking;

4.26.2 the operation of the financial control system; and

4.26.3 the development of management information and control systems.

We should however comment that we are due to receive a report from the Consultants on their review of budgetary and financial control and management information by the end of July, and we may wish to review the responsibility for the development of these systems in the light of that report.

4.27 In view of the great importance for finance of purchasing and supplies in the special circumstances of the railways, we suggest that the finance member might also be responsible for these activities and it would also be appropriate to consider, in the light of circumstances at the time, whether he might also have an overall responsibility for estates.

4.28 It will be essential that both the planning and finance members should have positions of recognised status and responsibility on the Board, to which, of course, as a whole, they would both be responsible. We suggest that the legislative provision for the Board should be such that it would be open to the

Minister, in consultation with the Chairman, to appoint both of these as Vice-Chairmen of the Board if, in particular cases, this seemed appropriate. This might most conveniently be achieved, by analogy with the Iron and Steel Act, 1967, by giving the Minister power to appoint one or more members of the Board as Deputy or Vice-Chairman.

Full-Time Members

4.29 In addition there must clearly be a number of full-time Board Members. With the sole exception of a member who, we recommend, should have functional responsibilities for personnel and labour relations (paragraph 4.30) we are agreed that these Board Members should not have functional duties. They should have spheres of interest, and might often be required to co-ordinate activities of various kinds. By this, we mean that individual members might be given responsibility for such varying matters as the overall development of the passenger business (necessarily crossing many functional boundaries), relations with the various Passenger Transport Authorities, the general oversight of one or more Regions, or non-executive Chairmanship of (or general responsibility for) one or more of the subsidiary units to which we refer in paragraph 4.41 below. The functional head of each of the various departments should be the Chief Officer, reporting to the Board as a whole, (most of them through the Chief General Manager), and not, as now, to a functional member of the Board.

4.30 In view of the undoubtedly importance of personnel and labour relations, we think that there should be a Board member who should have specific responsibility for the longer term development of labour relations in the industry. The Chief General Manager would, of course, be regarded as the employer of labour on the railways and he should have the support of a Chief Officer to deal with personnel and labour relations matters on a day-to-day basis. But there will be a number of important issues which have to be taken to Board level, and it is important that the Chief General Manager should not have to devote a disproportionate amount of time to them. Furthermore, labour relations will be one of the major responsibilities of the Board as a whole, and they may well find it important that there should be another one of their number, in addition to the Chief General Manager, with a special interest in this field. The labour relations member should, however, have a wider remit than the Chief Officer, and should not be regarded merely as the functional head of his department.

4.31 We do not think that it is possible to lay down any precise number of Board members. This will depend on the changing circumstances of the railway industry, and the different types of personality on the Board. It also depends upon the extent to which, in practice, the Chief General Manager finds that he needs assistance, at Board level, in the discharge of his duties for general management over the system as a whole. We suggest that the new legislation should provide for a minimum of three, and a maximum of six, such full-time Board members, including the one dealing with labour relations, but in addition to the Chief General Manager and the members with specific responsibilities for planning and finance.

Level of Remuneration and other Conditions of Service (including Pensions) for Board Members and Chief Officers

4.32 We are seriously concerned about the current level of remuneration and other conditions of service for members of the Board, and for Chief Officers. This is so vital a matter that we have concluded that we should make detailed enquiries, and we intend to make recommendations in a subsequent report. In the meantime, this matter is of such importance that it would be wrong for us to make general recommendations about the structure of the new Board without making it plain that, in our view, substantial improvements will be required in the level of remuneration and in the other conditions of service (including pensions) both for Board Members and for Chief Officers.

Headquarters Staff

4.33 It will be obvious from the recommendations made above that most Board Members should not have specific functional responsibilities, that a vital role will be played by the Chief Officers at Headquarters, who would carry full responsibility as heads of departments. Except for those Chief Officers concerned with the planning and finance functions which we suggest should be the responsibility of the two members described in paragraphs 4.22 to 4.28 above, the Chief Officers would report to the Chief General Manager. This would not, however, prevent the development of close relations with any of the full-time members of the Board who might have accepted a special interest in their sphere of responsibility.

Part-Time Members

4.34 We recommend that there should be at least three part-time members, who should be appointed for their ability and experience rather than on any representational basis. Specifically the Group do not favour the idea which was put to us that there should be representation on the Board of the National Coal Board, the British Steel Corporation and the National Freight Organisation. We are satisfied that the necessary co-ordination with those bodies can be achieved in other ways.

4.35 We further recommend that the period of service for part-time members should be restricted. We do not wish to recommend any exact time limit, but suggest that when the Minister and the Chairman consider individual appointments they should bear in mind that, on the one hand, part-time members should serve for long enough to ensure that the Board get full value from their experience, and the contribution they can make whilst, on the other hand, there should be sufficient change in their ranks in order to provide for the necessary infusion of new ideas at regular intervals. In this connection we think there will be considerable advantage in providing for greater flexibility in the remuneration of part-time members than is now customary. We have in mind that there may be occasions when an eminent outsider, whose services would be of value to the railways, might be prepared to serve on say a half-time basis with a consequential and desirable enhancement of his responsibility compared with that of a normal part-time member.

A General Scheme of Organisation and the Place of the Regions

4.36 We have already set out in paragraphs 4.6 to 4.11 the general considerations, present and future, which in our view will affect the relations between General Management at the centre, and Regional Management. We have also referred in paragraph 4.12 to the effect on the shape of the Board's management structure of the setting up of the National Freight Organisation and Passenger Transport Authorities and to the developments which are leading to a greater element of central direction. All these considerations are consistent with our recommendations for a small non-functional Board, and the appointment of a Chief General Manager.

4.37 We are agreed that the existing statutory Regional Boards no longer fulfil any essential function, and may indeed militate against the effectiveness of Headquarter control. Accordingly we recommend that the provision in Section 2 of the Transport Act, 1962, relating to the establishment of Regional Boards, should be repealed.

4.38 We are impressed by the desirability of affording to the Chairman of the Board and the Minister the greatest possible degree of flexibility in developing a Board structure and organisation that meets the needs of a situation that is, and is likely to continue to be, fluid. Accordingly we have noted with interest the precedent created by the Iron and Steel Act, 1967, which provides for the submission to the responsible Minister for his approval of a general scheme of organisation for the industry.

4.39 Our studies so far have led us to believe that it will be necessary in the future for the centre to assume a greater degree of control over activities in many fields. There must be a clear delegation of management responsibility within the limits of specified policy and planning objectives, and it will be desirable that the chain of command should be reduced in length wherever practicable. But these are detailed matters on which we do not feel qualified to put forward specific views, particularly as their development will necessarily be a lengthy process. We therefore recommend that a provision corresponding to that in the Iron and Steel Act, 1967, should be included in the Transport Bill to provide that the Railways Board should submit a general scheme of organisation to the Minister for her approval within a specified period of the date of coming into operation of the Act. We suggest that the Board should be required to submit the first of such schemes within an initial period of 12 months. We think that it would be desirable for the Minister herself to have a continuing power to initiate a change, if she thought one to be necessary, in the absence of proposals by the Board.

4.40 In their original submission the Board suggested that top policy co-ordination would be achieved through an Executive Policy Group consisting of the Chairman and the two Vice-Chairmen whom they proposed. If, in the event, it is decided to set up such a Group, which we suggest should be particularly concerned with planning, the details would no doubt emerge from the general scheme of organisation which the Board will be required to put forward to the Minister. We suggest that it would in any case be appropriate that, whatever their ranks on the Board, such a Group should include, in addition to the Chairman, the Chief General Manager whom we recommended in paragraphs 4.18 to 4.21, and the planning and finance members whose functions we have described in paragraphs 4.22 to 4.28.

The Board's Ancillary Activities

4.41 It will clearly be necessary to consider whether activities such as workshops, hotels and shipping should be hived off into separate management units or companies. We think that it would be inappropriate for us to seek to reach firm conclusions on this issue in the absence of a clear appreciation of all the relevant factors.

LEGISLATION

4.42 The legislative provisions consequent upon our recommendations are relatively simple and fall under three heads as follows:—

4.42.1 An amendment of Section 1 of the Transport Act, 1962, to provide for the amended size and composition of the new Board, including a provision on the lines of sub-paragraph 1(8) of Part I of the Fourth Schedule to the Iron and Steel Act, 1967.

4.42.2 The repeal of Section 2 of the Transport Act, 1962, which provides for the setting up of Regional Boards.

4.42.3 A new provision on the lines of that in Section 4 of the Iron and Steel Act, 1967, requiring the Board to put forward a general scheme of organisation for the Minister's approval within a specified period.

Section 5

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

FINANCE

5.1 Our summary of the likely financial position of the Board in 1969, and 1974, before allowing for any capital reconstruction, is set out in paragraph 2.24.

This table starts with the Board's financial forecasts, which are set out in Appendix G.2 and which show a break-even position on operating account in 1974. These figures take account of the establishment of the National Freight Organisation, but not of any grants for social passenger services or track rationalisation. After studying these figures we have concluded that, unless there are major changes in policies, the likely results in 1974 might well be up to £40m. worse than the Board have forecast; on the other hand, at best, they would be unlikely to be more than £10m. better (paras. 2.4, 2.9, 2.24 and Appendix G.2).

5.2 The best estimate, on the available evidence, is that the "social" grants for unremunerative passenger services, which we recommended in Section 3 of the Report, will not exceed £40m. per annum in 1969, and £35m. per annum in 1974, excluding interest in both cases (paras. 2.12-2.14).

5.3 The grant for track rationalisation described in paragraph 5.37 below, is likely to be of the order of £15m. per annum in 1969; this grant will have reduced to zero by 1974, but by that date the Board should have achieved savings of about the same order (para. 2.21).

5.4 After taking account of these likely grant levels, and after charging interest, we estimate a deficit for the Board in 1974 of between £5m. and £55m. (para. 2.24).

5.5 On the basis of the above conclusions, we are satisfied that a considerable write-off of existing capital debt to the Minister is inevitable if the Board are to be given realistic financial objectives (para. 2.25).

5.6 *We recommend* that the capital debt of the Board should be written down to a level at which it can reasonably be expected that the interest payments can be found out of prospective revenue early in the 1970s (paras. 2.26 and 2.39.1).

5.7 *We recommend* that the "break-even" thus envisaged should be based on neither too optimistic nor too pessimistic a forecast of the Board's revenues in the early 1970s (para. 2.39.2).

5.8 *We recommend* that the valuation of the assets should also be scaled down to what is represented by the new capital debt (para. 2.29 and 2.39.4).

5.9 *We recommend* that appropriate arrangements should be made for dealing with any surplus on revenue account in case, as a result of following the previous recommendations for cutting down the capital debt, the amount of write-off necessary has been overestimated; in particular, the Minister should have power to direct that any surplus, after taking the Board's requirements into account, is paid into the Exchequer (paras. 2.31.1 and 2.39.5).

5.10 *We recommend* that there should no longer be provision for deficit grants from the Minister (except perhaps for the transitional period 1969 to 1971); and in particular that no deficit grant should be payable in respect of depreciation provisions (paras. 2.28, 2.30 and 2.39.6).

5.11 *We recommend* that the Board's other continuing obligations deriving from the past (in respect of road bridges, level crossings, superannuation and the Police), should be taken into account in the capital reconstruction which we recommend in paragraph 5.6 above and that there should not be specific and continuing grants (paras. 2.17 and 2.39.3).

5.12 *We recommend* that ways should be found of compensating the Board for the cost to them of subventions to operators of bus services provided in place of withdrawn rail services (para. 2.22 and Appendix D.8).

GRANTS FOR UNREMUNERATIVE PASSENGER SERVICES

5.13 *We recommend* that grants should be based on an assessment of net losses likely to be incurred over a future period of time, rather than on the basis of payment in arrears in respect of actual losses incurred (para. 3.3).

5.14 We have concluded that once a grant has been agreed in principle, it should, as far as possible, cover all the costs which the Board incur in respect of that service and which they are not able to recover from the receipts from the service (para. 3.4).

5.15 *We recommend* that terminal and track and signalling costs incurred on facilities used only by grant-aided passenger services should be charged to those services. Pending further research we agree that where more than one service is involved these costs should be apportioned on the basis used by the Board for passenger profitability studies (paras. 3.5 and 3.6).

5.16 *We recommend* that an appropriate proportion of general administration costs should be allocated to grant-aided services (para. 3.7).

5.17 *We recommend* that the grant payable should include depreciation assessed on a replacement cost basis. *We also recommend* that the grants should include an allowance in respect of interest charges on the assets used in providing the service (para. 3.8).

5.18 *We recommend* that three years should normally be the period for which grants should be fixed in advance (para. 3.11).

5.19 The Minister should have control over the frequency and standard of service, and the maximum fares, on any grant-aided service (para. 3.16).

5.20 The Board should be required to refer to the Minister for specific approval any proposed capital expenditure over a stated amount in respect of a grant-aided service. The Board should be compensated where a grant-aided service is withdrawn before the fixed assets have been fully depreciated or where expenditure on renewals and periodic maintenance has not been fully recovered (para. 3.17).

5.21 The Board should be required to give the overall estimated financial results in respect of grant-aided passenger services in their Annual Report (para. 3.19).

5.22 The Ministry should be supplied with figures at agreed intervals in respect of each grant-aided service to show the extent to which the service is being used (para. 3.20).

STRUCTURE AND ORGANISATION

5.23 We conclude that the setting up of new national and regional transport organisations, and technical developments within the railways, will all influence the shape of the central structure of the Board, and the relationship between the centre and the Regions. Against this background we have tried to foresee the management structure which would be appropriate in a few years time, while recognising that there will be a transitional period during which different arrangements may be needed: on these we make no specific recommendations (paras. 4.12 and 4.13).

5.24 Our general conclusion is that the Board should as far as possible be free to concentrate on policy questions and in particular on the problems of future planning, and the individual members should not be tied down by day-to-day responsibilities for specific functions. *We therefore recommend* that ultimately the Board should consist largely of non-functional members, and should be smaller than at present (paras. 4.14 and 4.29).

Chairman

5.25 *We recommend* that the Chairman of the Board should be relieved of day-to-day responsibilities, in order to be able to concentrate on the major issues of policy and to project the Board's image both within the organisation and to the public at large (para. 4.15).

"Chief General Manager"

5.26 *We recommend* that a single member of the Board should be responsible for controlling and co-ordinating all aspects of the day-to-day running of the railways. He is envisaged as a "Chief General Manager" whom it might be appropriate to appoint as a Deputy or Vice-Chairman. He would co-ordinate commercial, operating and technical requirements in respect of both passenger and freight traffic (paras. 4.18-4.21).

Planning

5.27 *We recommend* that one member of the Board, who might be a Vice-Chairman, should have specific responsibility for the co-ordination of long range planning in the railways (paras. 4.23 and 4.28).

Finance

5.28 *We recommend* that another member, who might also be a Vice-Chairman, should have specific responsibility for financial policy (paras. 4.26 and 4.28).

Labour Relations

5.29 *We recommend* that one member of the Board should have specific responsibility for the longer-term development of labour relations (para. 4.30).

Full-time Members

5.30 *We recommend* that in addition to the "Chief General Manager", and the members with responsibilities for planning, finance and labour relations, there should be provision for a minimum of two, and a maximum of five other full-time Board Members (para. 4.31).

Part-Time Members

5.31 *We recommend* that there should be at least three part-time members, who should be appointed for their ability and experience rather than on any representational basis (para. 4.34).

Period of Service of Part-Time Members

5.32 *We recommend* that the period of service of part-time members should be restricted (para. 4.35).

Remuneration, Etc., of Board Members and of Chief Officers

5.33 We are confident that substantial improvements will be required in the level of remuneration and in other conditions of service (including pensions), both for Board Members, and for Chief Officers, and we propose to make recommendations in a later report. There should be greater flexibility in the remuneration of part-time members than is now customary (paras. 4.32 and 4.35).

Regional Boards

5.34 *We recommend* that the statutory provisions relating to the establishment of Regional Boards should be repealed (para. 4.37).

The General Scheme of Organisation

5.35 *We recommend* that the Railways Board should be required to submit a general scheme of organisation to the Minister for her approval within a specific period (say 12 months) of the coming into operation of the Act. The Minister should have a continuing power to initiate changes, if she thinks they are necessary (para. 4.39).

TRADE UNION VIEWS

5.36 We have taken account in the above recommendations of the views which the Trade Unions expressed to us on matters of finance and general Board structure; their views on other subjects are set out in Appendix A, but their comments have not led us to make any specific recommendations on those of the matters to which they referred which are within our terms of reference (para. 1.13 and Appendix A).

"STANDBY" AND "SURPLUS" INFRASTRUCTURE CAPACITY

5.37 After a detailed investigation we have concluded that it is highly unlikely that "standby capacity", additional to that required for the railways' commercial and social services, could be proved to exist as a permanent element of any foreseeable railway network. There definitely is surplus capacity in the system, however, and *We recommend* that, for the reasons set out at length in paragraphs 2.18 to 2.21, it would be right to pay a grant to the Board, fixed in advance and on a tapering basis, to assist in the elimination of this surplus and the rationalisation of the system (paras. 1.14, 2.18-2.21 and Appendix B).

OTHER OBLIGATIONS DERIVING FROM THE PAST

Road Bridges and Level Crossings

5.38 We have concluded that, although there is a good case in equity for transferring road bridges over the railway to local or highway authorities, on the basis that they should be regarded as part of the highway, the case in law is less good, and the practical difficulties are too large to be ignored. *We therefore recommend* that ownership of the bridges should remain with the Board, but that account should be taken of the costs of their maintenance, which amount to about £1½m. per annum, in the capital reconstruction which we recommend (paras. 2.16-2.17 and Appendix C.3-C.5).

5.39 *We also recommend* in Appendix C.6

- 5.39.1 that the Board's present payment of £40,000 per annum in respect of trunk road bridges should be discontinued;
- 5.39.2 that the Board's present responsibility for the surfaces of all overline bridges should be borne by the appropriate local authority;
- 5.39.3 that the Board's present duties in respect of the maintenance of bridges should be brought up-to-date; and
- 5.39.4 that the powers of the Inspecting Officers of Railways in relation to railway bridges already owned by local authorities should be extended.

Level Crossings

5.40 We conclude that the method of crossing operation, and the fact that control must remain with the railways, make it impossible to seek any financial contribution from local authorities. *We recommend* that it would be right to relieve the Board of a figure of the order of £1m. per annum, and that this should be done through the medium of the proposed capital reconstruction (paras. 2.16-2.17 and Appendix C.7-C.8).

Pensions

5.41 We conclude that there is no case for making any specific grant to the Board in respect of their pension obligations. The total amount of the obligations which result from the decisions of their predecessors is about £5m. per annum, and *We recommend* that this should be taken into account in the proposed capital reconstruction (paras. 2.15-2.17, para. 2.27 and Appendix C.9-C.15).

Museums and Historical Records

5.42 *We recommend* that responsibility for the Board's museums at Clapham and York should be transferred to the Department of Education and Science, who would be responsible for running a single museum to be housed in a building which the Board would provide at York out of the proceeds of the sale of their existing museum properties (Appendix C.16).

5.43 *We recommend* that the historical records should also be transferred to the Department of Education and Science, and housed in the same building at York (Appendix C.17).

5.44 We consider that the Railways Board should open negotiations for the transfer of responsibility for their Museum at Swindon to the Swindon Corporation (Appendix C.16).

Railways Savings Banks

5.45 *We recommend* that account should be taken of the interest burden on these Savings Bank deposits in the capital reconstruction which we recommend (paras. 2.15, 2.27 and Appendix C.18).

Transport Police

5.46 We have concluded that there is a case for some public contribution towards these costs, to the extent of about £600,000 per annum, and *We recommend* that this should be taken into account in the proposed capital reconstruction (paras. 2.16-2.17 and Appendix C.24-C.31).

Costing of Unremunerative Passenger Services

5.47 *We recommend* that the costing basis used for the calculation of grants for these services from Passenger Transport Authorities should be the same as that adopted for the calculation of grants to be paid by the Minister (Appendix D.9).

LEGISLATION

5.48 Legislative provisions will be needed as follows:—

5.48.1. An amendment of Section 1 of the Transport Act, 1962, to provide for the amended size and composition of the new Board, including a provision giving the Minister a power to appoint one or more members of the Board as Deputy or Vice-Chairman.

5.48.2. The repeal of Section 2 of the Transport Act, 1962, providing for the setting up of Regional Boards.

5.48.3. A provision requiring the Board to put forward a general scheme of organisation for the Minister's approval within a specified period.

5.48.4. Provisions to give effect to our financial recommendations.

5.48.5. Provisions to give effect to our recommendations on bridges over railways and museums and historical records.

APPRECIATION

5.49 Although we shall be submitting one or more further reports to you later in the year, the completion of this report provides an appropriate opportunity for us to express our thanks for the assistance we have received from our two Joint Executive Directors, Mr. Hammond and Mr. Lazarus, and from the Secretariat. A very heavy burden of work has fallen on their shoulders, not only in the drafting and circulation of the numerous papers and minutes of our meetings but particularly in the preparation of this report. They have performed their tasks to our entire satisfaction and we are most grateful to them.

PUBLICATION

5.50 For convenience in publication we have prepared this single report which combines in one document our reports of January and July, 1967. We have made only minor editorial amendments and the references and figures relate to the dates when the original reports were prepared.

Signed on behalf of the
Joint Steering Group,
JOHN MORRIS,
Chairman.

D. E. BARLOW,
Secretary.
September, 1967.

Appendix A

VIEWS OF THE RAILWAY TRADE UNIONS ON MATTERS OTHER THAN FINANCE AND MANAGEMENT STRUCTURE

A.1 It was clearly desirable that we should have Union views on a number of matters, and we have now had written evidence from all three Railway Unions, and have held a separate meeting with representatives from each Union. We have had views from each Union both on finance and on management structure, and have taken account of them in the recommendations which we make in Sections 2 and 4 of the main part of this Report. There are a number of other matters on which the Unions have put views to us which we think the Minister and the Chairman would wish us to report, and these are set out in the succeeding paragraphs.

Closures

A.2 All three Unions were in favour of a halt to further closures pending the determination of future policy. ASLEF thought that closure of lines and withdrawal of services should be halted pending the establishment of "a sound and rational basis for costing". They thought that joint consultation should play a greater part in the consideration of closures, and that the value of feeder lines to the main line services should receive greater emphasis. The NUR stressed the importance of correct costing of closures, and thought that the subsidies to bus operators which the railways are required to pay as a condition of closure should be taken into account. TSSA pointed out the harm done to the railway image by continual closures, and the need to consider whether branch lines could not be saved by the kind of cost-cutting exercises now being carried out in East Anglia.

A.3 We explained to the Unions that in fact:—

A.3.1 The Consultants have said that the Board's present costing principles are generally sound,

A.3.2 there is no evidence that the elimination of branch lines has deprived the railways of an appreciable amount of profitable traffic, and

A.3.3 passenger closures since the spring of 1963 are saving about £17m. per year.

A.4 ASLEF suggested that restricting the level of service on unremunerative lines was harmful to the image of the railways.

A.5 The NUR thought that there was a case for a contribution by local authorities towards the cost of providing railway services, because the value, for example, of houses in areas served by the railways is enhanced by improved railway services. We have been informed of the development of the policy outlined in paragraph 27 of the White Paper on Transport Policy of July, 1966 (Cmnd. 3057) for part of the responsibility for the retention of passenger services to be devolved on to local communities. We do not think that this is a matter on which we could usefully comment further. We have, however, said in Section 2 of this Report that, whilst further thought needs to be given to the means of meeting the cost of replacement bus services, we are of the definite view that the Board should no longer be required to do so once the new finance provisions apply (see also paragraph 8 of Appendix D).

A.6 The Ministry representatives agreed at the meeting with ASLEF that the Ministry would consider how they could take account of major points raised by the Unions about individual closures.

Road/Rail Track Costs

A.7 ASLEF stressed that road/rail competition should be rationalised, with particular reference to railway track costs. The Ministry representatives have provided us with a summary of the previous arguments on this issue, and at our meeting with ASLEF they put forward the view that overall the total cost of the road system (including various ancillary costs such as those of accidents) was heavily outweighed by the total licence duty and fuel tax derived from all road

users. The Ministry also explained that they did not think that the case for saying that heavy goods vehicles and buses did not make an adequate contribution had been proved. We know that this is a matter which is very much under consideration in the Ministry, and do not think that it would be appropriate for us to make any further comment on the issues involved.

A.8 We have, however, recommended in Section 2 of this Report that specific account should be taken of the costs of railway-owned overline road bridges in the capital reconstruction of the Board.

Control of Withdrawals of Freight Services and Closures of Freight Stations

A.9 ASLEF recommended that these should be made subject to the control of the Minister, because of their importance for the overall transport policies which the Minister was now working out. At our meeting with ASLEF, the Board pointed out that their policy of freight concentration, and the use of liner trains, had in fact meant that more freight traffic was being carried on certain services. At the same time, the railways recognised that there were other freight traffics which would be declining.

A.10 We do not think that the case has been proved that closer Ministerial control over withdrawal of freight services and closure of freight stations would serve any useful purpose, and we have decided not to make any specific recommendations. We explain in Appendices B and D to this Report that the Ministry and the Board are jointly pursuing certain questions relating to the allocation of track costs for freight services, and their implications for the control of the withdrawal of freight services, which arise from the Group's work on the problems of surplus infrastructure capacity.

Joint Consultations

A.11 This is one of the subjects being considered under the auspices of the Minister of Labour, and is not within the terms of reference given to us. We confine ourselves, therefore, to reporting that in the evidence given to us there was general stress on the need for improving the way in which the machinery for joint consultation was used. ASLEF said that whilst certain modifications were necessary, they thought that the present system was right. But harm had been done by this machinery being used for consideration of closure cases. TSSA took the same view that only minor modifications were necessary. But it was recognised that recent changes, and the number of closures, had thrown a great strain on the system. None of the Unions suggested to us that any substantial modifications would be necessary.

Staff Participation in Management

A.12 TSSA thought that there should be more consultation with the staff, but that it would be wrong for the Unions to have any share in management decisions. There should be members with Trade Union experience on the Board, because of the individual contribution they could make, but there should not be direct Trade Union or staff representation on the Board.

A.13 This is a matter which is currently being considered by the Government in relation to all the nationalised industries and we do not think that we are required to comment on the views put to us. But we should explain that in looking at the overall problem of the Board's management structure we have concentrated on the shape and size of the Board, and have not thought it necessary for us to recommend how Trade Union representation should be dealt with. This seems to be mainly a question for the Minister when she comes to make appointments to the new Board.

The Necessity for Adequate Public Services

A.14 In their evidence the NUR pointed out the importance of clean and comfortable trains, a conveniently timed service, speedy services, courtesy and assistance from the staff, comfortable station facilities and punctuality of trains. These must be provided at an economic price. They also thought that further electrification was important. TSSA thought that a unified fare structure and well prepared timetables were important. They also stressed the need for the removal of derelict station buildings.

A.15 These all seem to be matters which properly lie within the management responsibility of the Board, and we would not wish to comment, except to emphasise that, as set out generally in our recommendations in Section 2, and apart from the unremunerative passenger services, which are to be grant-aided on broad social and economic grounds, the need for the future will be for the Board to plan to provide services which are attractive to the public and which can be run at a profit.

Need for a Separate Police Force

A.16 The NUR thought that the present Transport Police tended to act on behalf of the railway management in matters concerning individual railwaymen, and that there would be advantages in the Police being independent of the Railways Board.

A.17 This is not a question which we have been able to consider in any detail, but it seems to emerge from the work done by the Joint Team that there are very strong reasons why the existing Railway Police should be maintained. The views of the NUR on what is essentially a narrow aspect of the police functions do not, in our view, go near to outweighing the arguments in favour of the force being continued.

Advantages of Electrification

A.18 As already stated the NUR regard this as important in order to provide a good standard of service for the public. TSSA thought it important for the good image of the railways.

A.19 No separate comment is necessary, other than to refer to the various places in this Report in which we have stressed the need for forward planning in order to ensure that, for the future, investment in major capital schemes is only approved in cases where the Board and the Minister are satisfied on the financial return to be obtained from the investment.

Need to Improve Career Prospects

A.20 TSSA referred to the importance of career prospects, and thought this could be achieved by improvement of the quality and conditions of work. Their main aim was that the best man possible should be acquired for a particular post, but so far as practicable the expertise already available within the industry should be fully utilised. Whilst recognising the need for movement between the various sectors of the nationalised transport industry, they were in principle against senior managers being recruited from outside industry.

A.21 At the meeting with TSSA, the Board representatives pointed out the need for injecting new blood into the railways from time to time, not least for training purposes. We accept the need for selecting the best available people for the top managerial posts, and clearly this cannot always be done by picking people already within the railway industry. But it is important, not least for the purpose of raising morale, that it should continue to be seen by all those within the industry that there is no bar to the promotion of able railwaymen to top posts.

Retention and Strengthening of the Financial Management Services

A.22 TSSA thought it important that this central service should be maintained and strengthened, and that even when the NFO came into existence, there should be no attempt to split this central service. This was particularly important in the light of the greater use and complexity of computers.

A.23 We have included recommendations in Section 4 of this Report for the control of the central finance services. The Consultants are due to report to us in the near future on management information and financial control, and we hope to put forward detailed recommendations in the autumn. We would expect that the administrative arrangements eventually agreed for the NFO would allow appropriate co-ordination in this field.

Labour Productivity

A.24 TSSA thought that this would be achieved by recruiting an improved quality of staff. They also pointed to the problems for supervisors of the bonus payments for wages staff.

A.25 These are clearly matters which fall within the Minister of Labour's enquiry, and we do not think that we should comment.

Appendix B

"STANDBY" AND "SURPLUS" INFRASTRUCTURE CAPACITY

SUMMARY

B.1 The concept of "standby capacity" was specifically included in our terms of reference, and we set up a Special Committee to study it in detail. We decided at an early stage that we were concerned with standby capacity in infrastructure (i.e. formation, track and signalling, etc.) and not with any standby in terminals, depots or wagons and carriages. We were also agreed that the real question was how far, if at all, would the proposed future railway network, as broadly agreed between the Minister and the Chairman of the Board, contain standby capacity which was additional to that standby capacity required (a) on commercial grounds, and (b) for the social services. In other words, and this seemed to the Group a most important point to emphasise, we were looking for surplus which was additional to that which the railways would need for sound commercial reasons (e.g. to cope with predictable peaks or to assist operational efficiency). We were also aiming to identify the nature of such surplus, why it existed, and, if any part of it was likely to persist, the reasons why.

B.2 In the light of detailed investigations carried out on their behalf, the Committee finally agreed that it was highly unlikely that standby capacity as set out above (i.e. additional to that required for commercial and social services), could be proved to exist as a permanent element of any foreseeable railway network. We accept this view.

B.3 The Committee were agreed, however, that there definitely was considerable surplus capacity in the system, the cost of which the Board would be unable to bear unaided if the continuance of the deficit was to be avoided. The essential distinction is that standby capacity would have permanence: surplus is essentially temporary and capable of removal. This surplus was mainly a matter of excess track capacity, and was related only to a minor extent to excess route mileage. In other words, it was more relevant to look at the width of the individual routes within the system, rather than at its total length.

B.4 As described in detail in paragraphs B.12 to B.14 below, we accepted the Committee's recommendation that a programme of work should be settled to identify this surplus, so that its cost could be assessed, and a programme could subsequently be agreed for its elimination.

WORK OF THE STANDBY CAPACITY COMMITTEE

Surplus in the System as a Whole

B.5 An initial approach adopted by the Committee was to assume that standby capacity was maintained by the railways in the form of a number of routes which were additional to those which would be provided by a fully commercial system. Thus it was thought that the difference between the 8,000 miles of route which would have been likely to result from the approach contained in the Board's report, "The Development of the Major Railway Trunk Routes", published in 1965, and the 11,000 mile system subsequently agreed between the Ministry and the Railways,* might disclose a quantifiable amount of standby capacity. Consideration of these 3,000 miles of route, and of the routes on the remaining 8,000 miles, disclosed that the Committee should be looking at route capacity rather than route miles as such.

Examination of Specific Routes

B.6 The Board suggested that it might be helpful for the Committee if special studies were made of a number of individual routes of widely varying characteristics. Three such studies were made by a Ministry economist working on data provided by the British Railways Board.

* Published in March, 1967 as "The Railway Network for Development".

B.6.1 The first route studied was the East Coast main line from King's Cross to Doncaster. The study identified some surplus capacity, which would permit the running of an additional 36 express passenger trains, or 18 slow freight trains per day. Its cause was the need to have a signalling system which would pass express passenger trains at very frequent intervals during peak periods. In consequence, capacity was available for the rest of the day, but it had not so far been possible to sell this capacity to users. It was implicit that the net revenue from peak passenger services adequately covered the cost of providing this surplus capacity.

B.6.2 The next route studied, Plymouth to Penzance, was a "secondary" route on which the long term decline in summer holiday traffic had rendered some of the track capacity superfluous to present requirements. It was found, however, that the regional management has plans for completely revised train services on the route, with a consequent reduction of the track mileage, and an increase in track utilisation. The route, which is at present nearly all of double track, is proposed for reduction to mainly single track with appropriate passing loops. The resulting train and track capacity is considered adequate for present and future needs. This was a case where surplus capacity had been identified, but by re-arranging and reducing the train services, it would be possible to eliminate nearly all of the surplus capacity. Some investment would be required for the singling project, but the potential savings were very high in comparison with the investment required.

B.6.3 Finally, a study was made of the Weaver Junction to Glasgow route, as it would be after electrification. This is a route on which the railways would have almost complete freedom to adjust the capacity to suit future commercial and operating requirements. Even with this freedom, it was proposed to install surplus capacity, so that the day-long rate of utilisation would be only just over 60 per cent. As with the East Coast main line, this high level of capacity was caused by the need to signal the route to carry short-run peaks of traffic at certain times of the day. As these would in themselves be profitable traffics, even including the cost of the extra capacity they required, it was concluded that the existence of the surplus capacity on the route would not impose a financial handicap upon the railways.

B.7 It was implicit in these three reports that it is possible to tailor the infrastructure capacity of a route to the expected volume and mix of traffic at least in the long term. Any surplus is, therefore, almost entirely a matter of commercial choice (e.g. to cope with profitable peaks) or of history. There may well be circumstances in which it is cheaper to leave the surplus, at any rate for a time, than to incur the expenditure required to eliminate it.

Distinction between Standby and Surplus

B.8 The Committee finally agreed, and we accept, that there is certainly surplus capacity in the existing network, and this creates a financial problem since, as the Board have consistently maintained, to leave the whole responsibility with them will merely ensure the continuance of the deficit. The Committee therefore came to the conclusion that the best way forward was to try to agree about the size and cost of this surplus infrastructure capacity, to decide how long it would take to eliminate it, and then to agree on a method of payment which would provide an incentive to the Board to get rid of this surplus as soon as possible. The Committee agreed that, given time, there should be no difficulty in calculating the extent of the surplus, though they recognised that it might vary over time in the light of changed traffic levels.

Proposals for Identification of Surplus Capacity

B.9 The Committee agreed that the extent of surplus infrastructure would depend on the number and types of trains to be run. It could not, therefore, be divorced from operating and commercial considerations. Only the Board would be in a position to identify this surplus infrastructure in the light of the

profitability of the traffics concerned. Most of it would probably be found to be on the "secondary" system, but some would be on the "primary" system. Most of it, also, would be in the form of double or multiple track, some of which could be reduced, thus lowering maintenance costs without reducing the *route* mileage.

B.10 On lines used only by grant-aided passenger services, the Committee assumed that the full cost of the minimum necessary track capacity for these services would qualify for the social grant. Any existing capacity in excess of the minimum requirements should be identified separately and included in the calculation of surplus capacity, with plans for its elimination.

B.11 Special problems arose in the identification of surplus capacity and the allocation of costs for grant purposes on lines carrying freight as well as grant-aided passenger services, and also on "freight only" lines. The allocation of track costs, where a line is shared between freight and passenger services, is a difficult question, and it may not always be right to accept the recommendation in the original report from the Consultants on Costing principles, which advocated a continuance of the railways' present practice of calculating this on the basis of total train weights. As set out in Appendix D, we are hoping to be in a position to make firm recommendations about this later in the year.

Recommendations

B.12 The Committee therefore recommended that the following plan of action should be taken by the Board :—

B.12.1 they should identify all existing surplus capacity whether on the secondary or primary system ;

B.12.2 they should identify those lines on the secondary system which would be needed for social passenger services, but on which, whilst they are so used, the Board would also run freight services. In respect of these, the Board should consider whether the freight services were likely to require additional infrastructure and whether they could meet its cost ;

B.12.3 they should estimate the cost of the continuing maintenance of each element of surplus capacity and the capital cost (if any) of its elimination ;

B.12.4 they should prepare a programme for the elimination of surplus capacity (taking into account the commitment to an 11,000 mile system).

B.13 A capital investment programme should then be agreed with the Ministry for the elimination of the surplus. A grant should also be agreed, on a diminishing basis, which would, in the first year, pay for the actual cost of maintaining this surplus. The grant would be paid annually at a level which would be fixed in advance, and which would be reduced year by year at a rate which assumed that the agreed elimination programme could be maintained. The effect of this should be that the Board would be relieved of all the costs of their non-commercial surplus infrastructure provided that they succeeded in cutting it out as quickly as the programme envisaged. The Board would then be left with a network which, after taking account of the social grants, should be able to play its part on a commercial basis in the country's transport system. It would be a much slimmer network than at present but it would retain the margin needed for commercial reasons, and the Committee did not believe that any additional surplus capacity need, or should, be maintained.

IMPLEMENTATION OF THE COMMITTEE'S RECOMMENDATIONS

B.14 We accepted all these recommendations, and decided to set up a further Committee to assist the Board in the formulation of their detailed proposals for the identification and costing of surplus infrastructure and the preliminary assessment of its cost. The remaining paragraphs in this Appendix describe the progress that has so far been made with this work.

B.15 There are three separate stages involved :—

B.15.1 The preparation of the broad estimate, which we have included in Section 2 of this Report.

B.15.2 Further work designed to produce, by the autumn, a more reliable estimate.

B.15.3 The preparation over the next 18 months of a detailed assessment of surplus, line by line, the calculation of its cost and the preparation of a plan for its elimination over a stated period.

Preparation of a Detailed Assessment of Surplus, and its cost

Definition of Surplus

B.16 It is assumed that it will be necessary to maintain and provide services over a specific route mileage determined by the Network for Development, published in March, 1967. In that context surplus track and signalling capacity can be defined as that which can be eliminated at no cost, or at a cost which will show a reasonable return on any necessary investment, and yet still leave sufficient capacity to operate such services as are commercially desirable and those services which the Minister decides should be retained on broad social and economic grounds.

Establishment of Surplus

B.17 To establish the extent of this surplus, a critical examination must be made of the need for all track and signalling comprising the 11,000 route mile network in relation to the traffic likely to be available on a commercial basis and for social needs, as well as the methods by which this traffic will be moved.

B.18 We assume that the proposed Bill will become law during 1968, and that the Government will decide to commence the payment of grants in respect of this surplus from 1st January, 1969. We refer, in future, to this date as the "prescribed date". We think it is a reasonable assumption that it will be feasible for the Board, before the prescribed date, to produce a sufficiently accurate assessment of surplus, and its cost, on which the total amount of grant can be calculated.

B.19 The Board have made it clear that, so far as commercially desirable traffics are concerned, account must be taken of the precepts contained in the report on the Development of the Major Railway Trunk Routes (February, 1965), for the concentration of the maximum volume of through traffic over the minimum of routes to reduce the cost per unit carried.

B.20 Even the best estimate of surplus capacity, however, can be no more than an approximation of a theoretical position which could exist at some point in time. It can never truly reflect the actual position on the track as changes in train speeds, speed mix, and methods of operation will take place continually to improve efficiency and productivity; the demand for rail transport will also change, and these factors will vary the actual degree of surplus capacity. It will be necessary before the "prescribed date" to make an assessment of surplus as it will be likely to exist on that date, or to be created over the period during which grants will be payable (see paragraph B.21 below). We assume that this will be five years, and we refer henceforward to this five year period, ending on 1st January, 1974, as the "prescribed period". This assessment will be required for the purpose of calculating the size of the grant. But we recognise that this is necessarily a somewhat artificial picture, and that in practice the Board will need to review the extent of any surplus capacity as a continuing process.

B.21 We are agreed that the Board will be required to assess not only the current surplus at the prescribed date, but also that surplus which will be created by the changes in the levels of traffic, and changes in operating methods and signalling over the next few years and which, at least as to the major part, they expect to be able to eliminate over that period. For this purpose the Board will estimate the likely pattern of operations by the end of the prescribed period in 1974, and use this estimate as the basis for their calculations. They will also include all surplus which is currently in existence at the time that each individual line is surveyed. A record will be kept of all surplus removed prior to the prescribed date, and the grant will cover the balance of surplus remaining.

B.22 The Board have made it plain that while they accept their obligation to reduce track and signalling facilities to a minimum commensurate with the services to be provided, the identification of surplus and its removal cannot coincide in time. To achieve the necessary reductions it will be necessary in many cases to resignal, to install track circuits and automatic level crossing barriers, to re-lay and re-align track and eliminate points and crossings. There is a limit to the physical resources available for this work in design offices, in contracting firms, in railway works and on the track itself, and the Board regard it as unrealistic to suppose that resources can be concentrated to eliminate surplus capacity from the network at a very rapid pace. The most convenient time at which to simplify a railway layout is when re-laying of the track becomes necessary or when signalling assets have reached the end of their useful life and must be replaced. But there may be economic and financial reasons why earlier change is necessary.

B.23 A decision about the priority to be given to the work involved in eliminating surplus will have to be reached by the Ministry and the Board direct when the full assessment of surplus has been completed, and when it is possible to compare the results from expenditure on the elimination of surplus against the expected return on investment for the development of the main routes and facilities. The Board set a high value on the use of the available resources for modernising and developing main routes to improve efficiency so that the best service can be given to the greatest number of the population and the largest sectors of industry. They believe that, in terms of cash contribution to viability, with the limited physical resources available, investment in track and signalling on a trunk route, associated with electrification, should achieve more and produce a much better net return to the railways than investment in the engineering work required for the elimination of surplus. But they recognise that it will be necessary to review the priorities when the detailed assessment of surplus is available, and we agree that this assessment should be produced as quickly as possible. When it is available, the Board and the Ministry will have to explore alternative policies and estimate their effect.

Grant for Surplus

B.24 When the surplus has been identified by the methods described above, and to the extent that elimination will not have taken place by the prescribed date, the amount of the grant for surplus infrastructure to be paid initially (i.e. in 1969) will be based on:—

B.24.1 the annual cost of the maintenance of track and signalling installations ; and

B.24.2 signalling operation costs,

for those facilities which are already surplus on the prescribed date, or which the Board estimate will become surplus during the prescribed period. Pending settlement of the new capital structure for the railways it will not be possible to determine the future interest and depreciation element in the cost of surplus. For the time being, therefore, in the assessment of the cost of surplus, interest and amortisation as it would be in present conditions, should be shown separately.

Method of Calculation for different categories of line

B.25 The Board have informed us of the methods which they propose to adopt for the identification of surplus and the assessment of its cost and have explained that for this purpose it will be essential to divide the rail network into several different categories related to its use and the type of service operated. We endorse their method of approach.

Assumptions Used for the Estimate of the Order of Magnitude Figure

B.26 We have explained in paragraph B.18 that we think it is a reasonable assumption that the detailed assessment can be substantially completed by 1st January, 1969. But it clearly cannot be done in any shorter period. In order to produce an order of magnitude figure, short cut methods had to be employed, and we accept the Committee's view that these methods are acceptable within the time constraint.

B.27 The figures of the cost of surplus as estimated by the Board, together with the justification for a grant, have been included in Section 2 of this Report, dealing with the Board's overall financial situation. The Board, with assistance from the Ministry of Transport economists, will refine these figures so far as possible over the next few months in order to produce the best available estimate before transport legislation is introduced into Parliament. We must emphasise, however, that there is bound to be a large element of uncertainty until the Board have identified in detail where surplus exists or can be created.

Appendix C

OTHER OBLIGATIONS DERIVING FROM THE PAST

C.1 We have explained in paragraph 1.15 that we have completed the work of examining these obligations. The following paragraphs set out our conclusions and recommendations, except in so far as they involve finance, in which case they have already been included in Section 2 of the Report.

ROAD BRIDGES AND LEVEL CROSSINGS

C.2 The total cost of overline bridges in 1965 was £1,506,000, of which some £900,000 was to revenue account, and therefore an addition to the deficit for the 2½ years up to 1960, the Ministry had agreed to pay the railways some £2m. per year towards the cost of road bridges and level crossings, because of the extent to which this had been inflated by the growth in road traffic. The payment was stopped in 1960, because it was thought administratively more convenient to deal with this through the revenue deficit. In addition to the above figures the Board pay £40,000 per annum to the Ministry in respect of their relief from liability for the trunk road bridges which were transferred to the Minister in 1946. They also have to find about £327,000 per annum for the road surfaces of bridges. As regards protected level crossings over public roads, of which there are some 2,800 at present, their total cost in 1965 was just under £1½m. The present statutory framework of responsibility for bridges and level crossings is obviously complicated and unsatisfactory. The main disadvantages are that there is a lack of clearly defined obligations, great administrative complexity, failure to reach satisfactory standards of provision, and administrative difficulties which often prevent the removal of bridges which are no longer necessary.

Bridges

C.3 Against this background, it seemed to us that, in principle, existing highway overline bridges should be regarded as part of the highway, and it is clearly inappropriate that financial responsibility should remain with the railways. Although it would seem logical to transfer the bridges to highway authorities, this is impossible because of the way the Rate Support Grant is distributed. It would, therefore, be necessary to transfer them to the larger local authorities. But the Rate Support Grant is based on complicated calculations which would make it impossible to compensate the local authorities in an equitable manner. (Figures submitted to us show that the compensation for the transfer of these bridges would vary as between one authority and another from £100 to £500 per bridge per annum.)

C.4 We have had to conclude that, although there is a good case in equity for transferring the bridges, in law the case is less good, and the practical difficulties are too large to be ignored. In reaching this conclusion we have also had in mind that these bridges represent only one-sixth of all the bridges for which the Board are responsible, and that in any case it would be sensible, on manpower grounds (as well as for safety reasons), to leave the responsibility for the physical maintenance of these bridges with the Board, since in practice, even if they lost responsibility for these bridges, the Board could hardly make any reduction in their maintenance staff.

C.5 We therefore recommend that ownership of road bridges over the railway should remain with the Board, but that as set out in Section 2, account should be taken of these costs, which amount to about £1½m. per annum, in the financial reconstruction which we propose.

C.6 We also recommend that the Board's present payment of £40,000 per annum in respect of trunk road bridges should be discontinued. We also suggest that, even if the bridges themselves are to continue in the Board's ownership, their present responsibility for the surfaces of all overline bridges should be borne by the appropriate local authority. Finally, the Transport

Bill should bring up to date the Board's present duties in respect of maintenance at present based on minimum legal liability, and the powers of the Inspecting Officers of Railways in relation to railway bridges already owned by local authorities should be extended.

Level Crossings

C.7 So far as level crossings are concerned, we have concluded that the method of crossing operation, and the fact that control must remain with the railways, make it quite impossible to seek any financial contribution from the local authorities to the operating costs of public road level crossings, although we note the Ministry's proposal to introduce legislation empowering local authorities to contribute to the capital cost of their improvement.

C.8 In view of the extent to which level crossing costs have been inflated as a result of the growth in road traffic, and the change in its nature, and also in the light of the additional responsibilities which we are informed the Minister proposes to put on the Board in respect of accommodation and occupation crossings, we think that it would be right to relieve the Board of a figure of the order of £1m. per year. We have recommended in Section 2 of this Report that this is the figure which should be taken into account in the calculations leading to our proposals for recapitalisation.

PENSIONS

C.9 The problems in this field are more difficult. The main questions to resolve are whether, and if so how far, the Board should be relieved of superannuation and pension liabilities relating to staff previously employed on social or abandoned lines, and its obligations which result from decisions of the Board's predecessors. There is also the problem of the interest burden on superannuation and pension fund deposits and provisions which are no longer represented by any viable assets. We realise that in facing these issues we are asking whether the Board should, in effect, be regarded as a new body, starting afresh from the current date, with only the liabilities that they have chosen to impose on themselves for the future, or whether it is right that they should be saddled with some part at least of the legacy of the past.

C.10 If the arguments for releasing the Board from its obligations were accepted in full, this might represent a sum of the order of £15m. to £20m. per year. To do so, however, would be a most unfortunate precedent for other industries in a similar position.

C.11 We have had to look into the figures in considerable detail, and think it may be helpful to set them out under two separate heads as follows:

C.11.1 *The Interest Burden*

Using 1965 figures the Board had to pay:—

(a) Interest on Superannuation and Pension Fund portion of Provision for Retirement Benefits	... ... ...	£3.6m. p.a.
(b) Interest on Fund balances held on deposit by British Railways Board	... ... ...	£6.2m. p.a.
(c) Interest on balance of BTC (Male Wages Grades) Pension Scheme	... ... ...	£1m. p.a.
Total	...	£10.8m. p.a.

The capital sums to which these interest charges relate (about £270m.) are not represented by cash, but by fixed assets in which, at one time or another, the monies have been invested. They are an integral part of the capital structure of the Board and the interest charges to which they give rise cannot be considered separately from the question of the overall interest burden of the Board's capital liabilities.

C.11.2 The Pensions Obligations resulting from the decisions, and practices, of the Board's predecessors

These obligations include the following:—

- (a) Future charges to revenue in respect of a deficiency (not yet quantified) emerging from the application of realistic assumptions on wages, etc. to the valuation of the funds. The present capital value of these deficiencies may well amount to a further £50m.
- (b) An unquantified figure reflecting the extent to which the Board may be involved in further deficiency payments attributable to provisions of the LMS Pension Scheme.

The Joint Working Team have estimated that these and other pension obligations of which the Board consider they should be relieved (these include charges to revenue in respect of the liquidation of Superannuation Fund deficiencies, the difference between the rate of interest credited to funds deposited with the Board and a realistic rate of interest, the difference between the contributions actually being paid by salaried staff and what they would be paying under the contribution rates prescribed in the new pensions scheme, the cost of future deficiencies and the cost of payments under non-statutory customary practices) might amount to about £8m. to £9m. per annum, but this depends to a considerable extent on the rate at which any deficiencies in the Fund were to be liquidated.

C.12 These sums together add up to a total of about £17m. to £20m. per annum. As set out above, something over half of this relates to the interest burden on sums invested with the Board, the remainder to the burden on the Board resulting from decisions of their predecessors.

C.13 In addition to the foregoing there is a capital obligation estimated at £20m. (resulting in an annual revenue charge of £1.6m.) in respect of the back-dating element of the new wages grade fund and continuing obligations of £0.15m. a year in respect of the extension of the benefits of the new fund to staff who retired between 1st January, 1967, and the start of the new fund in August, 1967. There are also deficiencies on other funds of the order of £20m. which are being currently met by charges to revenue at the rate of £1.5m. a year. This figure together with the £1.6m. mentioned earlier and the £0.15m., have been allowed for as expenditure chargeable to revenue in the long-range revenue forecasts.

C.14 We are sure that it would set a dangerous precedent to make any specific grants in relief of the Board's pension obligations. These are clearly obligations which have to be met, and the only question is whether the payment should and could be made in future by the Board. We recommend in Section 2 of this Report that account should be taken of these obligations in the financial reconstruction which we propose.

C.15 So far as can now be assessed (although these figures will need further study) the total capital value of the pensions obligations is of the order of £370m. as compared with £275m. in the balance sheet at 31st December, 1966. The capital values adopted for the reappraised superannuation obligations assume an interest rate of 5 per cent compared with the current rate of 4 per cent. The future annual interest burden will therefore be of the order of £19m. compared with the present figure of £11m. Against this increase of £8m. can be offset the avoidance of deficiency charges to revenue of some £3m. leaving £5m. increased charges to be taken into account in the forward revenue estimates and the assessment of the debt to the Minister.

MUSEUMS AND HISTORICAL RECORDS

Museums

C.16 We are satisfied that the Transport Museums have a useful scientific, educational and cultural role to play. The Joint Team think that the greater part of the exhibits in them should be preserved, and we consider that provision for the future of such exhibits as are preserved should be such as to assure their continuing development. We are agreed that it would be in the interests of the Railways Board, and beneficial from the standpoint of museum

policy generally, that the Board should build a new transport museum, for transfer to the Department of Education and Science as an outstation of the Science Museum, with the funds realised from the sale of the Clapham site. Our detailed conclusions and recommendations are as follows:—

C.16.1 It would not be possible to set up a *new purpose-built* transport museum, the primary purpose of which was to replace the museum at Clapham, and to pay for it from the proceeds of the sale of the Clapham site.

C.16.2 The *conversion* of an *existing* building would, however, enable a new museum to be provided out of the money released—which would probably amount to about £517,000—by the sale of the sites of the present museums at Clapham and York. Neither the Railways Board nor the London Transport Board have a building available in the London area, but the Railways Board have suggested the conversion of a motive power depot at York which would be well fitted to serve as a transport museum, and which could be satisfactorily converted within the limits imposed by available funds. The Department of Education and Science would, subject to approval by Ministers, be prepared to assume responsibility for a museum provided in this way, and the Ministry of Public Building and Works would accept responsibility for its maintenance.

C.16.3 If the proposed new museum at York was administered by the Department of Education and Science, and the policy of charging for admission was continued, total net costs would be about £15,000 a year less than those at present incurred by the Railways Board on the existing transport museums at Clapham and York. Since museum costs go to swell the railway deficit, a move to York would reduce the total cost of the museums to the Exchequer, provided that the Department of Education and Science were to continue the present charging policy. (To discontinue charging would increase the present annual costs of the collections to the Exchequer by about £10,000 p.a.)

C.16.4 The conversion of the York depot would provide enough space for all those railway exhibits which, in the view of the Science Museum, merit preservation in a national transport collection. The London Transport Board have indicated that they would prefer to take their own relics back into their keeping rather than see them removed to York, and we understand that this should result in a decrease in the London Transport Board's annual expenditure on relics.

C.16.5 We recommend that those exhibits which would not qualify for inclusion in a national collection should, in accordance with the established practice, in the first instance be offered free of charge to local museums and recognised preservation societies, and those for which homes were not found should be sold. Any sums realised in this way should be added to the funds available for setting up the new museum.

C.16.6 The Department of Education and Science would not be willing to assume responsibility for the museum at Swindon. We therefore recommend that the Railways Board should open negotiations for the transfer of responsibility for the museum at Swindon to Swindon Corporation.

Records

C.17 As regards the historical records, we are satisfied that they are of no value to the Board in running their business, but we accept that the bulk of them merit preservation on grounds of general educational usefulness and as illustrating an aspect of social history. We think there may be some scope for reduction in the amount spent on preserving the records, by centralising the English records in one building, but we accept that they are not suitable for inclusion in the Public Record Office.

C.17.1 It would be physically possible to accommodate the records at present held in the Railways Board's Record Office in London in a small extension, costing about £60,000, to the proposed York Museum. In view of the relatively small sum involved we recommend that the occasion should

be taken to transfer the historical records to York, even if this cannot be done entirely within the financial limits set by the proceeds from the sale of the Clapham and York sites.

C.17.2 The Standing Commissions on Museums and Galleries have been consulted and are broadly satisfied with the above proposals.

C.17.3 We finally recommend that provision should be made in the forthcoming Bill to enable these proposals to be carried out, and that the necessary arrangements might be left to the Board and the Ministry.

RAILWAYS SAVINGS BANKS

C.18 We explained in Section 2 that there was no short-term problem in regard to the Railways Savings Banks but that the interest on deposits had to be taken into account in assessing the total amount of interest burden which it would be appropriate for the Board to carry for the future. We have dealt with this aspect in Section 2.

C.19 In the course of our enquiries we looked at the trend of deposits over recent years. Deposits fell by £2.9m. from 1963 to 1965. They fell by a further £2.7m. in the first six months of 1966 to £37.3m. For the whole period 1959 to 1965 withdrawals exceeded new deposits to the extent of £16m. After crediting interest totalling £13m. the fall in total deposits amounts to a little over £3m.

C.20 The Team's researches show that the costs of administration would not diminish in proportion to the reduction in the total amount of deposits. Equally administrative costs would not be affected to any major extent by an increase of the order of 15 to 20 per cent. in the number of accounts deposited, and now that much of the calculation is done by computer, computer costs would not be materially affected by an increase of up to 40 per cent.

C.21 These circumstances provide strong arguments why the railways should try to increase the present size of deposits. Furthermore, and of equal importance, they are a source of relatively cheap capital for the railways as well as an incentive to savings amongst railway staff.

C.22 In these circumstances we have already recommended:

C.22.1 That the existing basis of operation of the Railways Savings Banks is left basically unchanged.

C.22.2 That positive steps be taken by the Board to encourage an increase in membership of the Banks and of the extended use of payroll deductions as a regular means of savings.

C.22.3 That the interest rate payable on deposits should be adjusted to bring the bank into line with other comparable banks.

C.22.4 That in addition to Railways Board employees, employees of a National Freight Organisation should in future be eligible as depositors in an enlarged "Transport" Savings Bank.

C.23 We should record that the Board have already largely implemented the above recommendations. Following the centralisation and computerisation of the existing Banks at Darlington, a new BR Savings Bank has now been established and the former Banks closed.

TRANSPORT POLICE

C.24 It appears that the services of the Transport Police may be regarded as falling into three distinguishable (but not exclusive) categories:

C.24.1 The protection of property in which are included the safeguarding of the premises and property of the Board, and of goods in transit and the property of travellers. This is clearly the sole responsibility of the Board.

C.24.2 The detection of crime, which is mainly a function of the Criminal Investigation Department (CID).

C.24.3 General public services, such as the control of traffic in the vicinity of main railway stations, the marshalling of crowds, general help to members of the public and the maintenance of public order.

C.25 The Railways Board have claimed that some element of grant for both C.24.2 and C.24.3 above would be justified. They have emphasised that nearly 20 per cent. of the Transport Police are in the CID and without them crimes on the railways would merely be reported to the Civil Police Forces for investigation by them. The Transport Police CID thus provide relief for the Civil Police Forces, and also render direct assistance, for example, in 1965 by making about 725 arrests. Furthermore, they are able to cope better in circumstances where knowledge of transport operations is essential. As regards services for the general public, some 24 per cent. of the Transport Police are employed in this field, much of which is common with that covered by the Civil Police (e.g. control of immigration).

C.26 On the other hand, it can be argued that the railways provide a police force largely for sound commercial reasons, and that their public image, and the cost of losses, would be materially affected by any reduction of their police activities.

C.27 We have concluded that, while it is a matter for the Railways Board to consider whether they want to maintain a Police Force, and although an element of the force is entirely a commercial responsibility of the Board itself, some part of the benefit from the particular services of the Police devoted to the detection of crime and to general public services accrues to the general public and affords relief to the civil forces.

C.28 It has proved impossible to provide a precise assessment of police services and their benefits and any apportionment must necessarily be a matter of judgment. Some of us have argued that, apart from any fall-out benefit from the services of the Transport Police as a whole, the particular benefits accruing from the services devoted to the detection of crime and the general public services were sufficiently substantial to merit financial recognition.

C.29 Others of us disagree with this view, and do not think that it has been established that, if the Board decided to limit their police services to what would be desirable on commercial grounds, this would make a significant reduction in the British Transport Police and its cost. It is in their view clearly unreasonable to describe any "fall-out" benefit to the community at large as being "substantial". Moreover, there are fall-out benefits in the other direction, i.e. to the Board from the activities of the Civil Police.

C.30 We have finally concluded that we must accept that there is a case for some public contribution towards these costs. The main reason for this is that the Transport Police clearly perform duties over and above those which are proper to a commercial organisation. In the past it has been expected that public bodies should assume some social obligations without remuneration, but we take it that it is now established Government policy to recompense the railways for expenditure incurred for social reasons. No precise basis for apportionment can be arrived at, but we suggest that calculations should be based on 50 per cent. of the cost of the force attributable to CID and to general public service functions. This would amount to about £600,000 per annum, i.e. about 20 per cent. of the total cost of maintaining the British Transport Police.

C.31 We have therefore recommended in Section 2 of this Report that the continuing services by the British Transport Police to the general public should be recognised by including in the proposed capital reconstruction of the Board a specific element in respect of these police costs.

Appendix D

UNREMUNERATIVE PASSENGER SERVICES

D.1 Soon after we were appointed we asked the Consultants to carry out a review of a number of the services which are currently running at a loss, and for which closure had been refused by the Minister, or her predecessors. Their main objectives were to consider possibilities for reducing costs (e.g. by reducing the amount of track, using conductor guards on trains, simplifying protection arrangements at level crossings, etc.) and also for increasing revenue (e.g. by adjustments of fare levels and by providing the service best suited to the needs of the travelling public, having due regard to economy).

D.2 The work showed that, in respect of five services, all of which were largely rural in type, the loss at the time when closure was refused could be substantially reduced. Much of this reduction is attributable to steps which have either been taken, or are currently being planned, by British Railways, but the Consultants made further suggestions for consideration by the Board. Not all of these, of course, may be feasible.

D.3 The Consultants have now prepared a draft questionnaire, all or part of which, depending on circumstances, would need to be completed by the British Railways Board in respect of each service before an application for a social grant was made, and which could then serve as the actual application form for such a grant. We have provisionally approved this draft and it is being tested in practice using a sample exercise covering some 25 unremunerative passenger services.

D.4 The purpose of the questionnaire is:—

D.4.1 to provide the Ministry with information on:—

- (a) the present service and its operating methods ;
- (b) the present usage of the service and its financial results ;
- (c) the Board's proposals for changes in the service and its operating methods ;
- (d) a forecast of the financial results for three years ahead.

D.4.2 to enable the Board to demonstrate that the service is being, or is planned to be, operated at an optimum level—that is, at the minimum deficit consistent with meeting the local demand.

D.4.3 to provide the Ministry with the basic information to assist them to make an assessment of:—

- (a) whether the social need is sufficient to justify the grant ;
- (b) whether there is any scope for improving the financial results by reducing the level of service or improving operating methods while still satisfying the basic social need.

The assessment will have to start from the present service, but the questionnaire is designed to lead to a decision being based on the best available assessment of future needs.

D.5 The assessment of social need is fundamental to the Minister's decision as to whether or not a service should be grant-aided. The questionnaire provides for the Ministry to receive basic information on the present usage of the rail service together with a list of alternative transport services. The Consultants have advised that, in their view, this information should be sufficient in the majority of cases. If, in some, borderline, cases more information is required than the Board has in their possession, the Ministry will have to obtain this from whatever source is most convenient, including possibly in the most difficult cases mounting a full market survey of passenger demand.

D.6 The present and projected financial results will be set out in full, and will also be expressed in terms of

- D.6.1 percentages of earnings ;
- D.6.2 rates per train mile ; and
- D.6.3 rates per passenger mile.

The expression of the deficit as a percentage of earnings will be helpful by showing the extent to which current passengers are in fact paying their way. The expression of a rate per train mile will be useful primarily as a basis for comparison between services with similar characteristics. The Consultants hope that the figure expressed as a rate per passenger mile will be particularly useful as an evaluation of the passenger benefit which would result from the payment of a grant. Whilst there will clearly be cases where on very strong social hardship grounds it may be necessary to pay an exceptional rate per passenger mile, this figure should prove a yardstick against which preliminary decisions can be reached. It will also be a useful tool for the determination of priorities if, in the long run, the total amount of these grants has to be contained within an annual estimate.

Track and Signalling Costs

D.7 In their first report, the Consultants suggested that track and signalling costs should be allocated to services according to the weight and number of trains concerned. In the light of the work of the Committee set up to consider standby capacity, we are now considering whether it would be more logical, in cases where the capacity of a route is determined solely by the peak needs of a grant-aided passenger service, for that service to bear most of the costs of the track and signalling, with the other services only bearing a proportion of the wear and tear costs. This would be particularly significant in cases where a line was used jointly by a commuter passenger service and by other passenger and freight services. We are arranging that, in the processing of the sample exercise to which we have already referred, both methods of allocating track costs should be tried out, in order that we can see the practical effect of the alternative approaches. We propose to make further recommendations on this point in due course.

Cost of Replacement Bus Services

D.8 We still have to consider how best to cover the subventions to operators of bus services provided as a condition of the withdrawal of rail services. We understand that discussions are continuing within the Ministry as to the provisions to be included in the forthcoming Transport Bill about bus services generally. Obviously the best method for dealing with the comparatively small number of bus services provided to replace withdrawn rail services will depend on the general pattern of the provisions to be made about the greater number of bus services for the country as a whole. We are, however, clear that it follows from the new proposals for the Board's finances that the responsibility for these bus services should be removed from the railways.

Passenger Transport Authorities

D.9 We have been kept informed by the Ministry about the development of thinking on the constitution and duties of Passenger Transport Authorities. It is clear that, certainly in respect of unremunerative passenger services wholly within conurbations, the arrangements which we have recommended for the payment of grants will not apply, and that the responsibility for paying grants will be laid upon these new Authorities. But on the assumption that this will not affect the overall financial position of the Board, we do not think that it is for us to go into the details of the arrangements which will be required. We strongly recommend, however, that the costing basis used for these calculations should be the same as that adopted for the calculation of grants to be paid by the Minister.

Future Programme of Work

D.10 The results of the sample exercise mentioned in paragraph 3 of this Appendix will be available in the autumn, and we then propose to review the whole situation, and to see how far the recommendations of the Consultants will be adequate for dealing with the identification of unremunerative services, the costing of them, and the preparation of material on which the Minister can make a decision as to whether the service should be grant-aided on broad social and economic grounds. We hope that it will be possible for us to submit a further report later in the year, and that thenceforward the railways can proceed with

the submission of cases in respect of all the unremunerative passenger services which fall within the field of our previous recommendations. We regard it as important that this should be done as quickly as possible so that, even before a statutory grant scheme comes into full operation, the Board may be able to quote in their Annual Report more exact figures of the extent to which the deficit is related to the burden of these unremunerative, but socially necessary, passenger services.

Appendix E

COSTING PRINCIPLES AND METHODS

E.1 We have had the benefit of a very full report from the Consultants, which covers the whole of the ground in great detail. It still needs further study, and, as set out below, in one important respect further research is needed before final conclusions can be reached. But whilst the Consultants suggest that certain changes are desirable, their overall conclusion is that the present costing principles and the ways in which they are applied are generally sound and that, at least on an interim basis, the methods now used to calculate movement costs for passenger profitability studies would be appropriate for grant purposes.

E.2 The difficulties of railway costing arise mainly from joint costs (defined by the Consultants as those associated with the situation where the production of one product enables the production of another to take place at no extra cost) and fixed costs (those which do not vary with changes in the quantity produced). In recognition of this problem, British Railways have divided their operating costs into two categories:—

E.2.1 Direct costs—which are considered to be both variable and specific (that is they can be attributed directly to the traffic conveyed);

E.2.2 Indirect costs (track and signalling and general administration)—which are normally treated as being both fixed and joint.

E.3 We agreed with the Consultants that it is necessary, if the classification of costs is to be improved, that costing research should be undertaken to determine:—

E.3.1 how, and on what time scale, costs vary with changes in either the volume of traffic or other measures of railway output;

E.3.2 what factors, other than output, affect the level of cost of each activity.

This is now in hand. It will be particularly important to ascertain how far costs vary from the average. We have also still to consider in the light of a further report from the Consultants which is expected shortly, how far the various presentations of costs meet the needs of managers who have to use these figures.

E.4 The Consultants have recommended that interest should not be treated as a cost, but should be recovered as part of a "profit contribution". We accept that the present method of assessing interest, which involves allocating to certain assets the sum actually paid by the Board in interest at the present, is unsatisfactory. We also accept that it should be distinguished from other costs. But we do not think that it is appropriate to think in terms of a profit contribution for an industry which is not intended to make profits, and which will certainly continue to be financed through fixed interest capital and not equity shares. In these circumstances, we think that interest should be charged at a current rate, and that as far as possible it should be assigned to specific items needed for particular operations.

E.5 Furthermore, we think that depreciation, for costing and grant purposes, should continue to be assessed on a replacement cost basis, and not on historic costs. This seems essential if the full cost of operations is to be taken into account, and if those assets of the railways which are to be retained are to be kept in good order in perpetuity.

E.6 The present accounting and information systems do not provide the information required for costing purposes, and it is necessary for the Traffic Costing Service to ascertain costs either by analysis of the overall working results or by *ad hoc* studies. Both methods have considerable disadvantages, which would be largely avoided if the budgets could be used for costing purposes to the maximum extent possible. The Consultants have reported that it should increasingly be possible to calculate from the budgets the total and unit costs for individual locations and track sections, distinguishing between short-term variable and long-term costs, and their proposals are now being studied in detail by the Board.

Appendix F

FINANCIAL AND BUDGETARY CONTROL PROCEDURES

F.1 The Consultants have made a preliminary report on some aspects of the budgeting and management information systems of British Railways. We still have more work to do in this field, but there are certain preliminary conclusions, which are sufficiently important to deserve some mention in this Report. It is also right to record the Consultants' view, with which we entirely agree, that in view of the fact that the present procedures were introduced only three to four years ago great strides have already been made by the Board.

F.2 Their recommendations are as follows:

F.2.1 As far as practicable "responsibility" budgeting should be extended so that individual area and depot managers within a division may be involved in the budgeting process.

F.2.2 There should be a greater degree of co-ordination between the:

- (a) budgeted sales in terms of both receipts and volume of activity;
- (b) estimated physical resources required to achieve the expected sales; and
- (c) expenditure budgets which should represent the cost of providing the resources required.

F.2.3 There should be an analysis of the differences between budgeted and actual results for activities or locations in order to show separately the effects of:

- (a) differences between the actual level of output and that envisaged in the budgets;
- (b) changes which are outside the control of the manager concerned; and over or under spending for which the manager is responsible.

F.2.4 In order to compare actual expenditure incurred with the expenditure which should have been incurred for the level of output actually achieved, it will be necessary to divide costs between those that may be expected to:

- (a) vary within the budget period with changes in the level of output;
- (b) remain unchanged, at least during the budget period.

If this attempt is made to determine the variable elements of the costs of activities, and if budgeting is extended to individual locations, then it would be possible to make greater use of the budgets for costing purposes.

F.2.5 They entirely support the philosophy underlying the developments in management control information proposed in the Board's overall plan of September, 1964. The principle of comparing the value (in terms of standard allowances) of output produced with the cost of the resources used in its production should, however, be extended to other activities.

F.2.6 They regard it as important that the control information systems now being planned should be designed to be integrated to the maximum extent possible with the budgetary control system. In turn, this integrated budgetary control/management information system should, as far as possible, be designed to meet the requirements of the Traffic Costing Service and thereby reduce the need for *ad hoc* sample studies to ascertain the costs of individual activities.

F.3 We have not yet been able to take a final view on all these recommendations. We have ensured that the Consultants collaborate with the Board in carrying out a detailed investigation of the steps that would be required to carry into effect those of their outline recommendations which we decide to accept, the advantages that this would provide for managerial decision-making, and the cost. We shall be reporting on this further in due course.

Appendix G.1.

LONG-TERM REVENUE FORECASTS

Summary of Economic assumptions on which forecasts were prepared by the Board

G.1.1 Between 1967 and 1975 total output will expand by 3 per cent per annum, industrial production by 3·3 per cent and wages will rise, in real terms, by 3 per cent per annum. There will be no change in the prices paid by the Board for materials and services.

G.1.2 Coal consumption and exports which amounted to 178 million tons in 1966, will decline to 158 million in 1969 and about 135 million tons in 1974.* Within the totals, coal for electricity generation will rise slightly. Consumption by the steel industry will be maintained and the remaining uses will decline, some drastically—e.g. domestic. Production will be concentrated increasingly on the East Midlands and South Yorkshire.

G.1.3 Steel production, which was 24½ million tons in 1966, will increase to 28 million tons in 1969 and 31/32 million tons in 1974. The changeover to imported iron ore will continue and be substantially complete by 1974.

G.1.4 Oil growth will be diminished, but not vitally, by natural gas developments.

G.1.5 Chemicals will represent an important growth industry.

G.1.6 The population will rise by 2½/3 million by 1974. Consumer expenditure will increase by 2·2 per cent per annum and car ownership, at present 9½ million, will reach 16 million. Competition from air will be maintained on main routes over 200 miles and, with a likely decrease in the cost of motoring in real terms, car competition will increase.

G.1.7 There will be no Channel Tunnel by 1974.

G.1.8 The 11,000 mile network will be reached in 1969 and maintained until 1974.

G.1.9 There will be no major difficulty in securing an allocation of investment for profitable projects or those essential to maintain profitable services.

G.1.10 There will be no difficulty in getting rid of freight traffic or services which cannot be made profitable.

G.1.11 The relationship with the National Freight Organisation will be such that the Railways' present losses on sundries, which is of the order of £20 million per annum, will be wholly transferred to that Organisation.

* There were indications, as the excise proceeded, that this figure was probably too high, and we therefore also considered an alternative assumption of 120m. tons. The Board estimated that the effect of this on their net revenue in 1974 would be a reduction of about £4m.

BRITISH RAILWAYS BOARD

Appendix G.2.

LONG-TERM REVENUE FORECASTS

TRAFFIC	1966			1969			1974				
	Actual Allocations (Base)			Provisional Estimates			Provisional Estimates				
	Revenue	Allocated Expenses	Margin	Revenue	Allocated Expenses	Margin	Revenue	Allocated Expenses	Margin		
<i>Passenger</i>		£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.		
Principal	...	74	43	31	79	44	35	87	47	40	
Secondary	...	26	21	5	23	14	9	25	14	11	
Stopping	...	28	38	10	23	26	3	23	21	2	
Suburban	...	52	43	9	51	42	9	54	46	8	
		180	145	35	176	126	50	189	128	61	
<i>Coaching Traffic</i>											
B.R. Parcels	...	37	33	4	37	32	5	31	27	4	
G.P.O. Mails	...	21	10	11	23	11	12	24	12	12	
		58	43	15	60	43	17	55	39	16	
<i>Freight</i>											
Coal	...	100	68	32	84	52	32	65	40	25	
Iron and Steel	...	34	31	3	39	31	8	27	19	8	
Oil—Train-Load	...	5	2	3	6	3	3	8	4	4	
Other—Train-load	...	}	53	54	1	13	6	7	19	9	10
—Wagon-load	...					38	40	2	21	20	1
High Capacity Containers	...		1	—		6	2	4	29	11	18
Sundries	...		24	40	16	9	5	4	8	4	4
		217	196	21	195	139	56	177	107	70	
<i>Miscellaneous Receipts and Expenditure</i>											
TOTAL DIRECT EXPENSES/MARGIN	...	9	4*	5	8	5*	3	8	4*	4	
<i>INDIRECT EXPENSES</i>											
Track and Signalling	...	—	105	105	—	94	94	—	92	92	
Administration	...	—	42	42	—	40	40	—	39	39	
General Expenses and Adjustments	...	—	7	7	—	28	28	—	24	24	
		464	542	78	439	475	36	429	433	4	
<i>Add Ancillary Income (Net)</i>	...	6	—	6	7	—	7	7	—	7	
TOTAL REVENUE/EXPENSES/MARGIN	...	470	542	72	446	475	(say)30	436	433	(say)—	

* The expenditure shown here is that relating to Miscellaneous Receipts which have not been covered already in the estimates given for the individual traffics above.

Appendix H

COMPOSITION OF JOINT STEERING GROUP

CHAIRMAN:

John Morris, M.P.,
Joint Parliamentary Secretary,
Ministry of Transport.

MEMBERS:

J. P. Berkin, C.B.E.,
formerly Managing Director,
Shell Petroleum Company Limited.

J. G. Cuckney,
Managing Director,
Standard Industrial Group Ltd.

D. O. Henley,
Assistant Under Secretary of State,
Public Finance,
Department of Economic Affairs.

J. J. B. Hunt,
Under Secretary, Public Enterprises,
H.M. Treasury.

P. G. James,
Member, British Railways Board.

H. C. Johnson, C.B.E.,
Vice-Chairman,
British Railways Board,
(since May, 1967).

F. C. Margetts, C.B.E.,
Member, British Railways Board,
(until May, 1967).

Professor A. J. Merrett,
Professor of Finance,
London Graduate School of Business Studies.

C. P. Scott-Malden, C.B.,
Under Secretary, Railways Group,
Ministry of Transport.

P. H. Shirley,
Vice-Chairman,
British Railways Board.

G. C. Wardale,
Under Secretary, Finance Group,
Ministry of Transport.

J. W. Wardle, J.P.,
Running Movements Supervisor,
British Rail Diesel Depot,
Tysley,
Birmingham.

W. I. Winchester,
Chief Officer (Financial Research),
British Railways Board.
(Deputised for Mr. James, April/May, 1967.)

**JOINT EXECUTIVE
DIRECTORS:**

J. R. Hammond, M.B.E.,
British Railways Board.

P. E. Lazarus,
Ministry of Transport.

SECRETARY:

D. E. Barlow,
Ministry of Transport.

Appendix J

REMENTS GIVEN TO CONSULTANTS

Remit 1

- 1.1 Review and comment on the acceptability of the principles and procedures now adopted by the British Railways Board for the assessment of the costs and profitability of freight and passenger traffic. Recommend any changes in these principles and procedures which may be desirable.
- 1.2 Recommend the methods by which the profitability of categories of freight traffic and individual passenger lines and services should be assessed.
- 1.3 Recommend the methods by which any grants for unremunerative passenger services should be calculated, controlled and paid.
- 1.4 Recommend how, and on what time base, the results of individual loss-making passenger services should be calculated and monitor the preparation of the necessary figures by the Board's staff.

Remit 2

- 2.1 Consider the results of all loss-making passenger services and recommend any changes, including those in the type and frequency of service, operating practices and fare structure, which would be likely to improve the results of these services in the long run.
- 2.2 Estimate the effect of the recommended changes on the viability of the services concerned.

Remit 3

- 3.1 Review the extent to which those freight services likely to be marketed by the Board after the formation of the National Freight Organisation* fulfil the requirements of customers and determine types of traffic and conditions under which additional traffic could be obtained by the Board.
- 3.2 Review and make recommendations on the methods and organisation of all functions of marketing for passenger and for those freight services which British Railways is likely to be selling after the formation of the National Freight Organisation, including sales to that organisation.
- 3.3 Review and make recommendations on the pricing policies for both passenger and freight services.

This review initially to be limited to a study of inter-city passenger services but keeping abreast on the passenger side with the conurbation studies already in progress and on the freight side with the Board's own researches. The Consultants to keep themselves informed as to progress with the National Freight Organisation.

- 3.4 Undertake those studies which work has shown to be necessary and which will be authorised by the Steering Group.

Remit 4

- 4.1 Review and make recommendations on the Board's financial and budgetary control procedures as applied both to revenue account and to investment projects.
- 4.2 Review and make recommendations on the financial, statistical and other information provided to management for control purposes.

* It has been agreed with the Consultants that, pending further clarification of the role of the National Freight Organisation, the phrase "those freight services . . . after the formation of the National Freight Organisation" in remits 3.1 and 3.2 means that the Consultants will give priority in their consideration to company train traffic and other bulk traffic that will not be likely to require the provision of road collection and delivery services, by British Railways or British Road Services.

Remit 5

5.1 Recommend the procedures to be adopted for forecasting the future income and expenditure of British Railways and for preparing long-term estimates of the operating results and financial position of the Board.

5.2 Monitor the preparation by the Board's staff of such long-term estimates as the Joint Steering Group may require.

Remit 6

6.1 Advise on any proposals by the Board on management structure.

6.2 Recommend any changes in management structure and responsibilities which work on other remits has shown to be desirable.

Appendix K

TERMS OF REFERENCE FOR THE JOINT REVIEW

1. The Government has reached the conclusion that for the foreseeable future there will be a need, as part of the country's transport system, for a substantial railway network. In order to restore stability to an industry which has been the subject of continual change and uncertainty, and to enable management and staff to concentrate on the development of the system in the interests of the public and of trade and industry, the Government has decided that the basic size of the railway network should be determined now. It will consist primarily of routes linking the main centres of population and of industry and commerce, with additional routes to serve major freight traffic flows and to provide essential passenger services for commuters and others. There are still some lines, services and stations whose retention in modern conditions can no longer be justified, and their future will be decided under the usual procedure as soon as possible to avoid prolonging uncertainty.
2. The Government and the Railways Board are determined that this stabilised rail system shall play a full part in the transport system of the country and do so with rapidly increasing economic efficiency. Capital will be provided for the replacement of rolling stock and the modernisation of traction systems and of track and signalling wherever this can be justified in economic terms. Investment will be concentrated on the main trunk routes carrying heavy flows of traffic, but other feeder and commuter lines will also be adapted to modern needs.
3. The social and other considerations which have led to the decision to stabilise the rail network also make it necessary to substitute a new financial framework for that imposed by the Transport Act, 1962. It has become clear that the requirement contained in the Act for the Board to "pay its way" by the beginning of 1968 is entirely unrealistic and would, if pursued, force it into action which in many cases would be against the interests of the community and inconsistent with the plans for transport and other services which the Government is developing. It must therefore be amended to provide more realistic and appropriate financial objectives and a new financial framework and discipline.
4. Against this background the Minister of Transport and the Chairman of the Railways Board have agreed to undertake a review of certain aspects of the railway industry. For this purpose they have set up a Joint Steering Group under the chairmanship of the Joint Parliamentary Secretary to the Ministry of Transport.
5. The Joint Steering Group will be assisted by an expert working party, consisting as necessary of independent accountancy and management consultants and including economists from the Ministry's new Directorate General of Economic Planning and by a number of joint Ministry/Railways Board teams investigating particular subjects. The terms of reference of the review as a whole will be as follows:
 - (a) to establish an acceptable basis for costing and to identify those categories of services (both passenger and freight) which are not covering costs; to isolate those categories which are potentially viable; to examine the remaining loss-makers and to isolate those with no prospects of becoming viable; and to cost in detail the annual loss on each passenger service which is unlikely ever to become viable so that the Government can decide whether it should be grant-aided on broad social and economic grounds;
 - (b) to consider any steps in the field of pricing policy or elsewhere which may be necessary to improve the prospects of those services which are already remunerative and those which are potentially viable;
 - (c) to examine the Board's methods of costing and financial control in the light particularly of the new proposals for meeting the cost of essential but unremunerative services and of other changes proposed in the White Paper;

- (d) to assess whether and, if so, to what extent the cost of the railway infrastructure includes an element of "standby capacity";
 - (e) to examine the Board's investment programmes and the criteria for investment appraisal;
 - (f) to examine the continuing obligations deriving from the past which rest on the Board, including those in respect of road bridges and level-crossings, of superannuation and pensions for past and present employees, and of the British Transport Police Force;
 - (g) to consider the suitability of the Board's management structure and procedures for the future operation of the system in the light of the contents of the White Paper and the changes which may stem therefrom;
 - (h) to make consequential recommendations, including suggestions for possible legislative changes;
- and to report to the Minister of Transport and the Chairman of the Railways Board accordingly.

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